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EAST EUROPE

Analysis of Romanian Election, Political Situation

90CM0286A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 12, 16 Jun 90 pp 4-5

[Article by Cao Jiang (5430 1412): "The National Salvation Front Won in a Fierce Race—Romania's General Election"]

[Text] Watched by the whole world, on 20 May Romania held the first "free election" since the overthrow of Ceausescu to elect members of both houses of Parliament and the president. Romanian people participated in this election with great enthusiasm. According to official announcements, 14.82 million of the country's 17.27 million voters voted—an 85.8 percent turnout. About 96.98 percent of all ballots were valid. It is reported that about 400 officials from Western countries, including the United States, Britain, and France, and other international organizations came to observe the election. Over 2,000 local and foreign reporters covered the election on the spot. The result of the election: The National Salvation Front [NSF] and its presidential candidate Iliescu won by a landslide.

Of Romania's 83 registered political parties, 73 participated in the election. There were also 400 independent candidates without party affiliation. Votes gained by the three presidential candidates are as follows: The National Salvation Front's Ion Iliescu got 85.07 percent of the votes, the National Liberal Party's Radu Campeanu got 10.64 percent, and the National Peasant Party's Ion Ratiu got 4.29 percent. In the elections of 119 seats in the upper house and 389 seats in the lower house, the National Salvation Front got 67.02 and 66.31 percent of the votes, the Hungarian Democratic League got 7.2 and 7.23 percent, the National Liberal Party got 7.06 and 6.41 percent, the National Peasant Party got 2.5 and 2.56 percent, and the Romanian Ecological Movement got 2.45 and 2.62 percent.

The Soviet Tass Agency commented that the results of this election showed that Romanian residents considered the National Salvation Front as "a leftwing political party reflecting the broadest interests of the laboring class" and that the significance of the National Salvation Front's victory was not limited to Romania. The head of the U.S. presidential observers' delegation held that "the election met the standards" and that "Romanian people have made one giant step toward democracy." Corneliu Manescu, member of the provisional committee of the Romanian National Coalition and former minister of foreign affairs, held that the general election was an important step for Romania to achieve stability, especially economic stability.

Shortly after Romania overthrew Ceausescu in December last year, the National Salvation Front announced that there would be a "free election" and all kinds of political parties and organizations appeared one after another throughout the country. With the National

Salvation Front on one side and the three reestablished historical parties—the National Peasant Party, the National Liberal Party, and the Social Democratic Party—on the other side, campaign activities became increasingly intense. The three historical parties were in power before the liberation. They were banned in 1947 and reestablished after the situation changed at the end of 1989. On 24 January 1990, the three historical parties organized some masses to protest against the participation of the National Salvation Front in the election and to demand that the National Salvation Front surrender its leadership. Supporters of the NSF also organized counter rallies. Thousands of miners came to the capital to support the NSF. With the help of the masses, these troubles gradually died down. Immediately after, the National Salvation Front made a concession. It gave up the monopoly of power and formed jointly with other political parties the temporary supreme body of state power—"the Provisional Committee of the National Coalition." It officially registered as a political party and prepared to participate in the election. On 11 March, political organizations such as the "Timisoara and European Association" held a demonstration and assembly in Timisoara, a city in the western part of Romania, to oppose the National Salvation Front and Iliescu and to announce the "Timisoara Declaration." The eighth clause of this declaration is to forbid former Romanian party and interior officials from participating in the first three presidential and parliamentary elections, which is, in fact, to stop Iliescu from running for president. Later, the National Liberal Party wanted to include this clause in the election law. After heated debates, the Provisional Committee of the National Coalition voted down this proposal and paved the way for Iliescu to run for president. On 22 April, a "marathon" demonstration supporting the eighth clause of the "Timisoara Declaration," which lasted over a month, started at the capital's university square. On the one hand, the National Salvation Front refused to make concessions, using the election law as their basis; on the other hand, Iliescu showed willingness to hold dialogues with protestors but he was turned down. On 3 May, the three historical parties again demanded postponement of the general election, saying that otherwise they would refuse to participate in the election. The National Salvation Front exposed and counterattacked the intentions of the three historical parties while persisting in its own stand. The three historical parties finally agreed to hold the election as scheduled.

Analysts think that there were many reasons why the National Salvation Front could win by a landslide. First, the program of the National Salvation Front was better suited to Romania's national conditions and the general wishes of the masses. It wanted to end chaos and stabilize the situation as soon as possible and to gradually develop the private system and the market economy in a limited way. Second, after the incident of December 1989, the National Salvation Front was the first political organization that came out to stabilize the political situation. It adopted some resolute measures to improve

the people's life and to alleviate the shortage of market commodities. It achieved definite results and won the support of the broad masses of people. Third, the broad masses of people were skeptical of rightwing political parties which advocated going all-out to oppose communism, demanded complete privatization, and pursued a foreign policy that leaned heavily toward the West. Workers were afraid that they would again become the slaves of capitalists. Peasants feared that they might lose pensions after the cooperatives were disbanded. Patriotic intellectuals feared that the country would become an appendage at the mercy of foreign countries. Many former Communist Party and Youth League members were afraid of persecution. For these reasons, most people adopted the stand of supporting the NSF. In addition, the NSF's leaders headed by Iliescu were experienced in politics. During the campaign, they adhered to principles as well as adopted fairly flexible strategies. The NSF announced that it would organize jointly with other political parties a coalition government even if it won the election, that the new election law allowed people who came back to the country after December 1989 to run in the election, and that no force would be used on those people who had demonstrated at the university square and that it was willing to hold

dialogues with them, and so on. All these lenient expressions helped win over the hearts of the people. In the race, the National Liberal Party won the support of increasingly more young intellectuals, but it could not compare with the National Salvation Front which had the support of the broad masses of workers and peasants. Ratiu, the candidate of the National Peasant Party, had a British education. The democratic ideas he advocated also failed to win the favor and trust of most people.

Iliescu advocated the establishment of a coalition government both before and after the general election. Despite the resistance of the three historical parties, the National Salvation Front said that the idea of a coalition government would be carried out. Iliescu said that the new government to be established should be "open to all who are prepared to assume responsibility for state interests." He maintained that the country would be established on the basis of a socialist democratic system, that its society and economy "will be modeled on Sweden," that with regard to foreign policies, it "will maintain good, friendly relations with the great neighboring country, the Soviet Union," and that it also "hopes to main a good relation with the United States and Japan." At the same time, he also warned the West "not to patronize us on how to implement democracy, for we would not follow anybody."

Secret Dealings of Children of High-Level Officials

90CM0383A Hong Kong KAIFANG [OPEN] in Chinese
No 44, 15 Aug 90 pp 16-18

[Article by Ku I-yu (0657 0181 7183): "Secret Information About the Prince Party Coming to Hong Kong: Special Duties With Special Privileges"]

[Text] *The Chinese Communists deny that Jiang Zemin's daughter has come to Hong Kong, but they cannot deny that the sons and daughters of high-ranking cadres have snuck into Hong Kong like a carp boat crossing the river. They have come to enjoy capitalism and make a big profit while carrying out special missions.*

Yang Shangkun's Daughter Accompanies Him on a Visit to Latin America

The news about Jiang Zemin's daughter coming to Hong Kong is a "rumor," but that Yang Shangkun's daughter, Yang Li [2799 2621] came to Hong Kong "on business" is 100 percent fact.

The "princess" Yang Li was the "dear child" that Mr. and Mrs. Yang Shangkun doted on. After Mrs. Yang, Li Bozhao [2621 0130 6856], passed away, she became even more of a "beloved daughter" to Yang Shangkun. When Yang Shangkun visited five Latin American countries this May, Yang Li joined the retinue, attended to her old father, and went sightseeing. Before setting out on the visit, Yang Li also came to Hong Kong in search of expensive merchandise for "supplies." Only after she had netted enough, did she follow her father to South America. At the end of July, when Yang Shangkun went to Beidaihe for meetings and summer vacation, Yang Li and her husband and daughter also accompanied Yang Shangkun and enjoyed a privileged life.

She Writes a Thesis Flattering Deng Xiaoping

During the Cultural Revolution when Yang Shangkun was in disgrace, Yang Li, along with throngs of young students, also went to the countryside and mountain areas and joined a village production team. After Yang Shangkun was rehabilitated, the smart Yang Li, who had no desire to be left behind, went to the United States as a foreign student and got a master's degree in international politics. Her thesis was entitled *On Mao Zedong Thought and Deng Xiaoping Thought*, in wanton flattery of Deng Xiaoping as a party loyalist of the first water.

The Totally Wealthy Woman Is Protected by a Bodyguard When She Comes and Goes

After Yang Li returned from studying in the United States, she was assigned to work in an office of the National People's Congress. Because she had to go to work every day and the salary was not high and she could not make any profits, she used caring for her father as a reason to leave the National People's Congress office. She went to Mr. Jung's [2837] Hong Kong branch of China Telecommunications seeking a part-time job so

she could stay at home and not have to go to work, and also could frequently "sneak" into Hong Kong to "make a profit."

In a few years Yang Li has become a totally wealthy woman. On her wrist she wears a name-brand watch worth tens of thousands of yuan. On her feet she wears high-heeled shoes worth a thousand yuan. She wears the best from head to toe, totally Western, [so dazzling that] it makes people squint. All of the jewelry that she wears is inlaid with stones or precious stones. She goes out in a high-class sedan and lives in a high-class hotel or an elegant residence with marble floors. She always eats in high-class restaurants like Li-ching or the Shui-che [Waterwheel] Room. In the evening she is a frequent guest in elegant ballrooms. What is most extraordinary is that this "princess" is accompanied by a bodyguard. How impressive!

When She Goes and Comes to Hong Kong She Is Assigned a "Special Mission"

While Yang Shangkun was in Beijing opposing bourgeois liberalization, Yang Li had to go to Hong Kong almost every month to enjoy the real bourgeois liberal life. At the end of last year, when Yang Shangkun left Beijing to go abroad, Yang Li came to Hong Kong. Soon afterward she traveled to Singapore with Mao Mao [3029 3029] (Deng Xiaoping's daughter Deng Rong [6772 2827]) to enjoy the scenery of the coconut groves and really live the bourgeois life.

The middle of June of this year Yang Li led a delegation to Hong Kong and stayed at the Sheraton Hotel. It still has not been revealed what her business actually was. It is said that a Hong Kong businessman met with Yang Li in the hope that she would recommend to the Chinese Communist upper echelon that Mei Lanfang's [2734 5695 5364] son Mei Baojiu [2734 5508 3773] be permitted to lead a delegation to Taiwan.

A high-ranking Beijing cadre told us, "Yang Li definitely does not go to Hong Kong for anything as simple as 'business.' What is more important is that she is tasked with a 'special mission' to gather relevant united front intelligence and provide it to the Chinese Communist upper echelon in preparation for the '1997' war."

Her Husband, Wang Xiaochao, Is Preparing to Go to England To Study

Yang Li's husband is Wang Xiaochao [3769 1420 2600]. Yang Li is four years older than her husband. She is 43 and Xiaochao is 39. Wang Xiaochao is adept at fawning and currying favor. Because of this, Yang Shangkun dotes on him more than on his own son. All of Yang Shangkun's activities in Beijing are arranged by Wang Xiaochao.

Before Wang Xiaochao married Yang Li, he was first a cadre at the Dongfeng Television Factory. Later, he was general manager of the Baoli Scientific and Technical Company directed by Deng Xiaoping's son-in-law He

Ping [6320 1627]. One of the "seven matters" that Jiang Zemin wanted to attend to was not permitting the children of high-ranking cadres to engage in trade or official corruption. Therefore, Wang Xiaochao left the Baoli Company and became a "youth awaiting employment." Wang Xiaochao is a very shrewd person. After he resigned from Baoli, he wanted by any means possible to go abroad to study. At first he thought of going to the United States to study, but the United States would not give him a visa. Now he has turned his attention to England and waits in line at the British Embassy in Beijing to leave the country.

Song Ping's Daughter Also Comes to Hong Kong To Make Great Wealth

In addition to Yang Shangkun's daughter's frequent visits to Hong Kong, a daughter of Song Ping, a member of the Standing Committee of the Politburo of the Central Committee of the Chinese Communist Party, also does business in Hong Kong. But this Miss Song was already in Hong Kong before Song Ping was on the Standing Committee of the Politburo. Miss Song was engaged mainly in steel and machinery deals, rebuilding second-hand equipment and importing it into the mainland to replace worn-out equipment in the steel mills. It is said that she really knows how to pull strings and that she has become very wealthy.

Xi Zhongxun's Son and Daughter and Others Do Business in Hong Kong

The younger son and daughter of Xi Zhongxun [5045 0112 8113], another former member of the Politburo of the CPC Central Committee and vice chairman of the Standing Committee of the National People's Congress, after changing their surname also engaged in business in Hong Kong. This young master of the Xi household originally did business in Zhuhai; later he transferred to Hong Kong, and now he is a millionaire. When Xi Zhongxun was first secretary of the CPC in Guangdong Province, young Master Xi took advantage of his father's influence to run wild in Guangzhou and rape and seduce a lot of women. Public security personnel were somewhat fearful of him and he elicited a great deal of popular indignation. Xi Zhongxun's daughter was originally a division commander in the Beijing armed police. She had a husband and child, but, in order to marry a Hong Kong businessman, she divorced her husband and requested to come to Hong Kong to be reunited with her new Hong Kong husband. After she arrived in Hong Kong, because she was not good in the language, she was not able to find a very comfortable job. She worked as a common laborer and her life was not at all as pleasant as she had imagined. But because of very strong backing, she very quickly changed her status and, flying back and forth between Hong Kong and Beijing, she also entered the ranks of wealthy women. Besides Xi Zhongxun's son and daughter, his brother-in-law and other relatives also came to Hong Kong to do business.

He Long's Daughter in Charge of Personnel at Kuang-Ta

When the Kuang-Ta Company was first established, Wang Guangying [3769 0342 5391] warned that that company did not want the children of high-ranking cadres. But there was one exception, He Long's [6320 7893] daughter, He Xiaoming [6320 1420 2494]. After she arrived at Kuang-Ta, she changed her name to He Liming [6320 7812 2494].

During the Cultural Revolution, He Long was regarded as a "bandit" by Mao Zedong and Lin Biao. Not only was he struggled against and criticized, but he was sent in custody to a certain province in the southwest and died of starvation there. He Long's children fled in all directions and sought refuge in the homes of their uncles and aunts. Miss He hid in Liao Chengzhi's [1675 2110 1807] home and because of this fell in love with and married the elder prince of the Liao household, Liao Hui [1675 2547]. After Liao Hui took up the post of director of the Overseas Chinese Office, Miss He also changed her name and came to Hong Kong to assume a post at Kuang-Ta. Husband and wife were apart more than they were together. Because she was not good at business, she took charge of Kuang-Ta's personnel work.

Spy Chief Kong Yuan's Son Also at Kuang-Ta

Kuang-Ta Company now has another high-ranking cadre's son as an assistant general manager. He is Kong Dan [1313 0030], son of Kong Yuan [1313 0626], former head of the Central Investigation Department.

When Kong Yuan was a member of the CPC Central Committee, he was head of the Central Investigation Department for a long time and was an old Chinese Communist spy chief along with Luo Qingzhang [5012 7230 7022] and others. After Kong Yuan's wife died, he was introduced to and married Zhang Hong [1728 5725], who had been writer Deng Youmei's [6772 0645 2734] first wife. Kong Dan, who was Kong Yuan's first wife's son, was secretary to former Chinese Communist minister of finance Zhang Jingfu [1728 0513 1133].

When Kong Dan was in Beijing, everyone considered him to be a rather decent sort and a fine young man with lofty aspirations.

Tao Zhu's Son-In-Law Gives Up the Books To Pursue Business in Hong Kong

Tao Zhu's [7118 6999] son-in-law and reportage literature writer Li You [3810 3945] also is now in Hong Kong and has changed his profession to business.

Li You's wife is Tao Siliang [7118 2448 0081], vice bureau chief of the sixth bureau of the CPC United Front Department. In 1986 Li You came to Hong Kong and returned to Beijing to write *Xianggang Xintai Lu* [A Record of Hong Kong Feelings], which caused a sensation in the Beijing literary world. A year ago, to get a one-way visa to come to Hong Kong to live, he again gave his

reason as gaining personal experience in preparation for writing a long report on Hong Kong people's feelings about "1997."

Last spring Tao Siliang requested to come to Hong Kong to visit her husband. Right after she returned home, she ran into the death of Hu Yaobang and the student uprising. After the Chinese Communists published the "26 April" RENMIN RIBAO editorial terming the student movement "turmoil," on 29 April Tao Siliang directed the Intellectual Bureau (the Sixth Bureau) of the United Front Department in organizing a meeting of "Joint Activity in Commemoration of the 70th Anniversary of the May 4th Movement." They highly esteemed the "27 April" large student demonstration as "revolutionary." The meeting was attended by Su Shaozhi [5685 4801 2535], Tang Yijie [3282 0001 0094], Dai Qing [2071 2532], Sun Zhangjiang [1327 7022 3068], Bao Zunxin [0545 6690 0207], Chen Yizi [7115 0001 6171], and others. This meeting was later condemned by the conservative faction as a meeting to beat the gongs to clear the way for the 1989 counterrevolutionary turmoil.

After "4 June," Li You saw Liu Binyan when he came to Hong Kong. His every sentence was totally cautious and circumspect. He did not dare to publish any articles in the Hong Kong press, and recently it was rumored that he had given up writing to pursue business in Hong Kong.

Following Zhao Ziyang's falling on hard times and being down and out, Mr. and Mrs. Zhao Dajun [6392 1129 6511] have now also come to Hong Kong seeking a haven.

Mr. and Mrs. Zhao Dajun in Hong Kong Seeking a Haven

Zhao Dajun was formerly a natural scientist. When he was in Guangzhou, people had a pretty good impression of Zhao Dajun and thought that he was a pretty decent sort, unlike some playboy sons. His work was impressive and he did not use his father's influence to do bad things. But a few years ago, Zhao Dajun came to the Shenzhen Petrochemical Company. At first, he also was responsible for personnel work. Later he took over the management of a subsidiary company.

While he was in Shenzhen, Zhao Dajun still preserved his character and did not at all use the authority of his position and his special connections for official corruption. But those military adviser-types under him constantly used Zhao Dajun's name for a great deal of "official corruption." So, the popular indignation at Zhao Dajun was rather great.

Before Zhao Ziyang was removed from office, Zhao Dajun's company bought almost 100,000 "Huang He," "Haiyan" [petrel], and "Ruyi" brand televisions from Xian and resold them at a profit. The Xian people were very resentful of this and a popular jingle satirizing this matter ran, "The Huang He flows east, the petrel flies south, and the citizens of Xian do not have things as they like it."

Children of High-Ranking Cadres Coming to Hong Kong All Assigned Special Missions

It is understood that a great many children of high-ranking CPC cadres come to Hong Kong and, almost without exception, they are assigned "special missions," some rather open and some very secret.

Those coming to Hong Kong on a one-way visa all have changed their surnames for concealment. To confuse the political department of the Hong Kong government, they also deliberately steer clear of Beijing and have the visa issued from a remote area to pretend that they are someone from an outlying province coming to Hong Kong. And the Chinese Communist spy organs take care of them and do not permit them to have any contact at all with such Chinese organizations as the Hong Kong XINHUA Agency, the Bank of China, or the China Travel Service. When they come to Hong Kong, Chinese Communist spy organs also issue them some Hong Kong and U.S. money for emergency needs.

But after these people who have been assigned a "special mission" arrive in Hong Kong and see the lives of the common people in this "hellish" capitalist society, who knows how many times better than the life of the common people in the socialist mainland, they feel deeply that they have been deceived by the CPC. The vast majority no longer want to be CPC special agents and even have a falling out with their superiors and break off relations. Some take a milder method of dealing with their superiors. On the surface they deal with them in a perfunctory manner, but in reality they do not do anything, entirely different from those who per-versely and willingly serve as CPC lackeys.

NATIONAL AFFAIRS, POLICY

Forum Discusses Enterprise Development in 1990's

Editorial Note

90CE0400A Beijing JINGJI RIBAO in Chinese
17 Jul 90 p 3

[Editorial note in column entitled "Seize the Opportunity, Welcome the Challenge, and Reach for Success—Excerpts of Selected Speeches from the Forum on Enterprise Development Strategies and Decisions for the 1990's"]

[Text] *During the Eighth Five-Year Plan period and even for the next 10 years, the focus of China's restructuring of the economic system will continue to be on enterprise reform. Exploring the strategies and decisions to develop enterprises can help smooth the way for enterprise reform. For this reason, in mid-June of this year, JINGJI RIBAO and CHANGZHANG JINGLI BAO [FACTORY DIRECTORS AND MANAGERS] jointly sponsored the Forum on Enterprise Development Strategies and Decisions for the 1990's in Chongqing. The conference received more than 60 articles. Participating experts, scholars, and factory directors and managers spoke their minds at the meeting. We have selected excerpts from several comrades' speeches for print here.*

Feng Jixin [7458 4764 1800], member of the Central Advisory Commission and chairman of Chinese Economic Information Press Association, and Yuan Baohua [5913 1405 5487], chairman of the Chinese Enterprise Management Association, and other comrades also spoke at the meeting. Their speeches are fairly long and have been compiled into a book entitled Essays on Enterprise Development Strategies and Policies for the 1990's.

Pattern of Development Strategies

90CE0400B Beijing JINGJI RIBAO in Chinese
17 Jul 90 p 3

["Excerpts" from one of the speeches at the Forum on Enterprise Development Strategies and Decisions for the 1990's: "Enterprise Development Strategy Is the Grand Scheme of Enterprises' Future Prospects—In View of the Current Status of China's Enterprises, Huo Xingyi (7202 1800 0001) of the Chinese Enterprise Management Association Discusses the Patterns of Enterprise Development Strategy in the 1990's"]

[Text] 1. **Diverse enterprise development patterns.** Enterprise development can be seen in the following areas: (a) Enterprise organizational systems will become diversified. Enterprises will develop under different ownership systems (state-owned enterprises, collective enterprises, private enterprises, enterprises of mixed ownership systems, Sino-foreign joint ventures) and multiple enterprise systems (contract system, shareholding system, and leasing.) None will become the only organizational system for all enterprises. (b) Industrial organization patterns will become diversified. China's enterprises will

form an industrial organization pattern where large-, medium-, and small-sized enterprises coexist and develop in harmony as production becomes fully socialized. Industrial organizations of different sizes will achieve greater development in a way which is of even greater significance to the commodity economy. Enterprise management will become multi-faceted as well as more specialized. (c) Enterprises' development goals will become diversified. Enterprises will no longer make expanding quantity their only goal. They will emphasize developing a comprehensive system with material, spiritual, and social development goals, and which includes qualitative, structural, and enterprise cultural goals as a part of enterprise development.

2. **Overall, enterprise development strategy will be very much externally oriented.** This is due not only to the general law of enterprise development but is also determined by current changes in the international economic environment and by the reality of China's enterprise development. On the one hand, the internationalization of the economy has broadened and deepened. Everything has become internationalized, from resource inputs and technological choices to increased production efficiency and product sales. Ultimately, enterprises are responsible for opening up China's economy. This means that China's enterprise development strategy in the 1990's must be very much externally oriented. On the other hand, China's economic development is facing a shortage of talents, per capita resources, and funds. To extricate ourselves from this predicament, we must take part in international economic exchange. Since enterprises have basically become independent commodity producers as well as the key figures in all economic activities, opening up China's economy to the outside world must be achieved through their externally oriented development.

3. **Investment strategies will play a bigger role in enterprise development.** As enterprises gradually establish themselves as independent commodity producers, they are strengthening their role as major investors during enterprise development and the readjustment of the industrial structure. In the wake of the reform of the overall investment system and in their role as independent commodity producers, enterprises cannot and should not depend entirely on state investments for their quantitative growth, qualitative improvement, and structural transformation. They must rely on their own investment mechanisms in order to succeed. In the 1990's, China's enterprises should accumulate funds on their own, merge, and absorb shares, etc., to gather development funds and invest. This is an important enterprise development strategy which differs from the development program under the planned economy.

4. **Enterprise groups will gradually become the dominant force in effecting China's economic development strategy.** This conclusion is based on the following observations: (a) China has a fairly solid economic foundation and social structure. It is possible for it to sustain a high rate

of growth in the 1990's. (b) China's industrial structure will undergo rapid and significant changes in the 1990's. Instead of stressing light and processing industries, the industrial structure will lean toward the capital-intensive chemical industry. (c) According to the theory of the industrial life cycle, mature industries will still play an important role in China's economy in the 1990's. (d) Competition in the market will face a new environment in the 1990's—competition among enterprise groups, especially large enterprise groups, will dominate international trade.

5. The global high-tech revolution will also affect the pattern of China's enterprise development strategies. Overall, as a low-income, developing country, China will continue to develop mainly labor-intensive industries. But, in order to catch up with the global economic development, China must create a multiple enterprise development pattern which combines advanced, ordinary, and traditional technologies while emphasizing ordinary technologies.

It should be noted that besides the above general characteristics in China's enterprise development strategy patterns of the 1990's, we should also be aware that each enterprise must consider the characteristics of its own trade or industry and learn more about the characteristics of its own environment and development strategy.

Reform Goals

90CE0400C Beijing JINGJI RIBAO in Chinese
17 Jul 90 p 3

["Excerpts" from one of the speeches at the Forum on Enterprise Development Strategies and Decisions for the 1990's: "How To Implement Enterprise Reform in the 'Eighth Five-Year Plan' Period Is a Matter of Great Concern To the Factory Directors and Managers; Relevant Departments of the State Are Soliciting Ideas From the Public and Are Drawing Up Enterprise Reform Programs—Li Xiong (2621 7160), Member of the State Commission for Restructuring of Economic System, Discusses Enterprise Reform Goals in the Eighth Five-Year Plan"]

[Text] Enterprise Reform Goals

Enterprise reform goals can be divided into a long-term goal and goals to be achieved under the Eighth Five-Year Plan. The long-term goal sets the direction of enterprise reform, and reform under the Eighth Five-Year Plan should aim at moving towards this goal. According to the series of documents handed down by the Central Party Committee, the long-term goal of enterprise reform is to gradually turn enterprises into socialist commodity producers and managers capable of making independent management decisions, taking responsibility for their own profits and losses, developing independently, and restraining their own behavior; they are legal entities with specific rights and obligations. Thus, based on the principle of "maintaining overall stability and readjusting the finer points," we have amplified the rights of

enterprises to make management decisions as stipulated and handed down by the state. Under the Eighth Five-Year Plan, the goal is to make sure enterprises do indeed have the right to make management decisions as stipulated and to strengthen enterprises' self-restraining mechanisms at the same time.

Changing Enterprise Management Mechanisms

To date, three systems have been proposed: the contract management responsibility system; the separation of taxes and profit and after-tax contracting; and the shareholding system.

After several years' practice, the contract management responsibility system has proven its clear and positive role in increasing enterprise vitality and mobilizing enterprises' and workers' enthusiasm. We have drawn up policies, laws, and regulations, established a fairly complete set of work procedures, and trained a group of cadres to make the system work more smoothly. But the contract management responsibility system is flawed, because it cannot guarantee that the government's fiscal income will not decrease as a percentage of the national income and because it tends to encourage enterprises' short-term behavior. Thus there is no consensus as to whether the system should continue to be implemented under the Eighth Five-Year Plan, although surveys show that enterprises generally support the system.

If we continue implementing the contract management responsibility system, we should work on areas that involve the major contractors, contract bases, contract terms, contract fulfillment, and managers' incomes.

Separation of taxes from profit, after-tax contracting, and after-tax debt payments will have a positive effect on guaranteeing the stability of the government's fiscal income as a percentage of the national income and will to some extent arouse enterprises' and the workers' enthusiasm. This change will mean higher taxes for most enterprises, because currently the average tax enterprises pay to the state as a percentage of their realized profit is lower than the 35 percent income tax rate being considered. Statistics show that nearly half of the enterprises will have no profit if their contract base is net of taxes. This will make the contract system less attractive and will in turn dampen enterprises' and workers' enthusiasm. After-tax debt payments will discourage enterprises from making technological improvements, which will undermine their staying power.

During the Eighth Five-Year Plan, we should continue experimenting with the shareholding system and perfecting the pertinent measures but should not make it a general practice for all enterprises. We should vigorously develop joint-stock companies which have gone beyond the experimental stage. Since property rights over the stock of state-owned assets have not yet been defined, it will be difficult to speed up the conversion of enterprises' stock of assets to shares any time soon. Joint-stock operation can only be developed if property rights have

been restructured, the enterprise is newly formed, or if there has been a large-scale expansion.

Revamping Enterprises' Internal Operating Mechanisms

Revamping enterprises' internal operating mechanisms will further smooth out their internal relationships. Specifically, we must perfect enterprises' leadership systems, their internal economic responsibility systems, and their system of optimal labor composition.

During the Eighth Five-Year period we should continue to implement and perfect the factory director responsibility system. We should make sure that the factory directors are indeed given the function and power to make management decisions, set up organizations, hire and fire cadres, and determine the internal distribution and reward and penalty systems as specified under the "Enterprise Law," so as to facilitate enterprises' normal production and management activities and deepen enterprise internal reform.

Perfection of the enterprise internal management responsibility system means primarily that enterprises contract for responsibility and not just to guarantee profit.

Enterprises' internal system of optimal labor composition should be integrated with society's insurance system and should continue to be steadily implemented in pilot projects.

Setting Up Mechanisms To Optimize Enterprise Organizational Structures

We should smooth out relationships among enterprises. Optimization of enterprise organizational structure can result in optimization of the product-mix and industrial structure. Currently, enterprise organizational structure is being readjusted in several ways: enterprises contracting with enterprises; enterprises leasing from other enterprises; lateral integration of enterprises; formation of enterprises groups; enterprise mergers; stock participation and stock control by enterprises in other enterprises. These formats allow enterprises to supplement each other's advantages and functions and promote the proper circulation and optimal combination of key factors of production.

Enterprise Developmental Trends

90CE0400D Beijing JINGJI RIBAO in Chinese
17 Jul 90 p 3

["Excerpts" from one of the speeches at the Forum on Enterprise Development Strategies and Decisions for the 1990's: "What Are the Enterprise Development Characteristics and Trends in the 1990's? After Extensive Studies and Investigations, Hao Shengqi (6787 4141 3823), Deputy Secretary General of the Central Advisory Commission, Discusses the Strategic Trends of Enterprise Development"]

[Text] 1. Enterprise organization is becoming more modern. We now have specialized joint companies, transregional, transindustrial, and even transnational companies. The number of large enterprise groups a country has is one indication of how industrialized that country is. China has not attained a high level of industrialization. We have no hot-selling products, which makes it difficult for us to plant a foothold in the international market. If we take advantage of cooperation, we can break down the vertical and horizontal barriers that separate the central and local governments. Some people have suggested opening up trades and industries as well as various departments in order to attract foreign capital and upgrade this country's technologies. This is a very progressive suggestion. Establishing trans-regional ties will be the enterprise development trend of the 1990's.

2. Another enterprise development concept for the 1990's suggests that enterprises end their internal conflicts and change their coordinated behavior. Because our system has not been straightened out, enterprises must try to survive and grow amid the disorderly external conditions and must adapt to those conditions. For example, the pricing system cannot be readjusted at the moment, and so enterprises can only hope to develop if they, as a group, try to improve themselves.

3. Enterprises must have diverse management methods and produce a variety of goods. Only in this way can they adjust to the changing international market.

4. We should devote ourselves to eliminating the horizontal differences. The difference [between enterprises] of the same trade or industry is reflected mainly in the economic norms and technological and quality standards. If enterprises are to survive, they must eliminate these differences.

5. We should refine the crude management methods and gradually set up scientific management mechanisms. We should turn from comprehensive quality control to comprehensive facility control to ensure product quality. Only in this way can we increase labor productivity and enhance our ability to compete.

6. We should shift from enhancing the products' prestige to carving an image of perfection and change for the enterprise, and from making a name for the products to making a name for the enterprises themselves. Enterprises should be motivated by the desire to benefit society and project their own perfect image as they compete.

7. We should change the passive management strategy which forces us to cope with situations; instead we should take an active role which will affect related situations. As enterprises adapt to market changes, they should set up a full-text information network and build flexible mechanisms to handle emergencies.

8. We should pay attention to and study international changes and closely watch changes in the international

economic situation. We must study enterprises' international trends, seize every opportunity, and take part in international exchange and competition.

Basic Strategy

90CE0400E Beijing JINGJI RIBAO in Chinese
17 Jul 90 p 3

["Excerpts" from one of the speeches at the Forum on Enterprise Development Strategies and Decisions for the 1990's: "What Is China's Basic Enterprise Economic Development Strategy in the 1990's? Qi Zhiwen (7871 1807 2429), JINGJI RIBAO's Assistant Editor in Chief, Talks About Optimal Structure, Reasonable Growth, and Intensive Management"]

[Text] Optimizing the [economic] structure means maintaining balance in the nation's economic development, having a policy that favors key industries, and promoting a more rational industrial structure. Specifically, it means strengthening agriculture, energy, raw material, communication and transportation, and other basic industries and using new, advanced techniques and equipment of the 1980's to upgrade the national economy and promote the transformation of the industrial structure. It means actively developing high-tech industries and letting them play a larger part in the national economy without slowing the development of the consumer goods industry, while at the same time striving to upgrade the light industrial and textile goods industries. While guaranteeing the domestic supply of goods, we should continue to increase exports.

Moderate growth means avoiding the kind of sudden surge that is triggered by an increase in inputs. Instead, we should keep the rate of growth within reasonable limits based on the country's industrial capacity, take into consideration the effect of technological progress, and base it on the premise that economic efficiency will constantly increase. We want to maintain balanced economic growth without causing serious shortages of energy and raw materials and without idling substantial industrial productive capacity, so as to guarantee a gradual increase in effective supplies and keep market supply and demand more or less balanced. We want to avoid the kind of runaway inflation that rapid growth can bring, but we also want to avoid stagflation. Moderate growth should mean steady growth, without sharp rises, sharp falls, or severe economic fluctuations.

Intensive management refers specifically to the following: We must make every effort to reduce the consumption of materialized labor and active labor in the production and circulation processes, readjust the industrial organizational structure, develop specialization and cooperation, and practice economies of scale. In particular, we should develop enterprise groups, enhance our ability to compete at home and abroad, and make promoting technological progress the central link in our economic development in the 1990's. At the same time, we ask that all enterprises hire quality workers, forge close partnerships, and gradually become institutional

and transnational enterprises, helping China to fulfill her historic mission of becoming a world power.

Roles of Enterprise Groups

90CE0400F Beijing JINGJI RIBAO in Chinese
17 Jul 90 p 3

["Excerpts" from one of the speeches at the Forum on Enterprise Development Strategies and Decisions for the 1990's: "Developing Enterprise Groups Is Crucial To Deepening the Reform and Readjusting the Industrial Structure, Product Mix, and Organizational Structure. Li Yingquan (2621 5391 2938), President of the No. 2 Automobile Group's Economic Research Institute, Discusses the Economic Duties of Enterprise Groups"]

[Text] 1. We should change the superior-subordinate relationship between government departments and enterprises and turn enterprises into bona fide independent commodity producers and managers. To accomplish this, we must change the old practice of determining the functions of owners of state-owned assets according to the administrative structure. Since the restructuring of the economic system, the state has handed down large amounts of state-owned assets to localities, giving local governments the rights and privileges of owners of state assets. Under the circumstances, it is inevitable that localities will try to increase local employment, promote local economic prosperity, ensure local market supplies, and raise local living standards. Consequently, redundant construction, regional separatism, and carving up of the nation's unified market are unavoidable problems.

2. We should integrate asset management. Enterprise groups should be managed under the state's property rights. Their duty to preserve the value and guarantee the appreciation of state-owned assets should be clarified, and they should be given decisionmaking rights in managing the state's assets, putting an end to interference by government departments and local governments in enterprises' everyday management activities. This will guarantee that enterprises will increase efficiency to satisfy the country's economic goals and pay taxes as required.

3. We should establish an organization to manage the enterprise groups and change the situation where the groups are being run by factories. Instead, enterprise groups should model themselves after corporations. We should set up an enterprise group management organization which will make investment decisions, manage assets, draw up central programs, make central plans, and conduct scientific research and development centrally. We should complement this system with other relevant management systems.

4. We should strengthen alliances which are linked by capital so that they share profits as well as risks. The semi-core level [of enterprise groups] should be managed via stock control or stock participation. We should augment companies' fund gathering and investment

functions. We should borrow money and pay debts centrally, make central plans when putting in additional assets, and centralize asset utilization contracts and the appropriation of scientific research funds. If we can accomplish this, we will be able to separate the government's and enterprises' functions. This will in turn clarify the financial relationship between the central and local governments, and enterprise groups will finally be unfettered.

Defects of State Guiding Price System Examined

90CE0405A Beijing *JIAGE LILUN SHIJIAN* [PRICE: THEORY AND PRACTICE] in Chinese No 6, 20 Jun 90 pp 10-12

[Article by Ren Hongquan (0117 7703 3123) and Zhu Yukang (2612 5940 1660): "The Inadequacies of the State Guiding Price as Seen in Practice"]

[Excerpts] State guiding price is something that has emerged in practice during China's price reform. [passage omitted]

Today, state guiding prices generally fall into two categories: One is variable price, that is, enterprises determine their own prices based on the state's centrally-set prices and change those prices within limits according to production and operation conditions and market situation. Maximum price ceiling price and minimal protection price fall into this category, because within the limits of the maximum ceiling price and the minimum protection price, enterprises may set and change prices as they wish. The other category allows the state to stipulate a margin between selling and purchasing price for each link and lets enterprises add a margin to their reasonable purchase price to determine their own prices. Below, we will analyze the problems of these two types of state guiding prices.

First, let us look at variable prices. There are three kinds of variable prices. One is where the state sets the maximum price and allows enterprises to determine their own price below that ceiling. For products that are being produced faster than sold and whose prices are fairly high and the cost can possibly be lowered, this price ceiling is meaningless; the variable price is in fact the market regulated price. For products which are in short supply, the price ceiling becomes a second list price; prices will not vary, and the variable price is superfluous. A second situation is where the state sets the median price and permits enterprises to vary their prices within fixed limits. For products that are in short supply, the state's median price is often too low, and the allowable increase on top of the median price becomes the fixed price, and there is very little difference between this price and a state-set price; prices will not adjust downwards. As for commodities which have greater supply than demand or whose supply and demand are more or less balanced, their prices have generally been decontrolled, and there is no variable price problem. The last situation is where the state sets a minimal protection price and allows enterprises to adjust prices upwards.

This pricing practice aims to protect the producers' interests, but in the absence of other supplementary measures, for example, if there is nothing in the public finance, administration, and legal systems to back up the department enforcing the minimal protection price, the price cannot be implemented.

Let us now look at the state guiding price as set by enterprises based on the allowable margins. These prices are concentrated in the circulation sector, and their main problems are as follows:

1. Guiding price does not give play to the state-run wholesale businesses' role as the main channel for providing and withholding goods and materials and balancing market supply. Since reform, although commerce has been growing in leaps and bounds, the state-run wholesale businesses are still responsible for developing production and guaranteeing supply. During a market slump when more goods are being produced than sold, some goods must be put into storage, and when the market supply and demand situation changes, these goods can be put back into the market. To store these goods will necessarily incur some custody charges and interest payments. These expenses should be recouped when the goods are sold. But in reality, they are never recouped because of the fixed margin. [passage omitted] Because of this drawback in the state's guiding price management, instead of buying more and stocking more goods when supply exceeds demand, the state-run wholesalers rush to dump their goods, and when goods are in short supply, they compete with everyone else to stock up, thus exacerbating the supply-demand conflict.

2. State guiding price undermines the stability of market prices. Currently, most commodities under the state guiding price system are priced according to the purchase price plus an appropriate margin. The purchase price is determined by the nature of the supplier. If the supplier is a manufacturer, the purchase price is generally the plant-exit price. If the supplier is a wholesaler (including combination wholesaler-retailer), the purchase price is the wholesale price. For the retailers, if their purchase price is the plant-exit price, they can add a selling-purchasing price margin plus a retail margin; if their purchase price is the wholesale price; they can only add a retail margin. If they purchase goods from out-of-town, they can even add a regional differential. For these reasons, the retailers are eager to do business directly with the manufacturers. Often because of the low volume, the factory will set a higher price than the plant-exit price; sometimes this price is even higher than wholesale, but the retailers are still willing to buy, because if their cost goes up, so does their price. Thus, this pricing method actually raises the price level.

Another characteristic of the state guiding price is that it only limits the margin for each link but does not limit the number of links. This lets prices get out of control. Ever since commodity prices are set by adding to rather than

subtracting from [a given price], the number of commercial enterprises that combine wholesale and retail businesses has increased. Many of these wholesaler-retailers sell their goods wholesale by offering a discount on the retail price, and sometimes they sell wholesale at retail or higher than retail. As the commodities change hands over and over again, each link tags on a margin, and the final retail price in the market is much higher as a result.

3. The state guiding price hinders the formation of a uniform pricing order in the socialist market. The division of labor in the management of commodities using state guiding prices lets the State Administration of Commodity Prices set some prices and the pricing departments of the local people's governments set other prices. To give aid to certain local products, some local governments would put those products under the state guiding price system and set a high regional price differential if similar products are brought in from the outside, so as to keep out foreign goods. To keep the local price index under control, some local governments would make use of government subsidies to suppress the plant-exit prices of some local products which are managed by state guiding prices while narrowing the margin between different commercial links to keep retail prices down. Meanwhile, when these local products are destined for markets outside of the region, they will allow the manufacturers to sell those goods at whatever price they choose. This not only will not affect the local retail price level but will produce more local income. Since the localities manage prices by way of tagging on the allowable margin if the goods are bought elsewhere and there is no limit to the starting price and the purchase price is generally accepted as the reasonable base for evaluation, local businesses are more than happy to buy goods from out-of-town, because they can make a bigger profit. This practice in fact helps the localities to transfer the higher prices to one another, causing a general price increase and wasting society's labor resources.

The above problems of the state guiding price system make production and operation and price management very difficult. Survey in Wuhan shows that more than 50 percent of the illegal pricing activities and court cases being investigated by the price inspection department fall under the state guiding price management system. Many grass-roots level workers who deal with product prices are urging that the state guiding price system be improved and perfected. The problem boils down to three reasonable decisions, that is, reasonable margin, reasonable links, and reasonable valuation base. But the fact is, the state has never addressed these three issues when setting prices centrally. It goes without saying that if these three issues can be resolved, there will be no reason for having state guiding prices.

The original intention of the state guiding price management was to let the state retain the regulation and control rights over market prices while allowing enterprises to have some price flexibility during the course of price reform. After several years' practice, this system has proved to be inadequate. To a certain extent, the state

guiding price has neither managed to control commodity prices nor has it given enterprises the power they deserve to set prices; instead, it has caused some unexpected price distortions. Thus, it seems necessary to go back to study and adjust the content of the state guiding system.

What China practices is a planned commodity economy. How to set up the socialist commodity economy operating mechanisms to integrate planning and the market is a major issue that requires constant probing. The proposal and implementation of the state guiding price system is a worthy attempt, but the system fails to integrate the unity of planned pricing and the versatility of market regulated pricing. To overcome the deficiencies of the state guiding price system, we must stop looking at things as they stand. We suggest decontrolling the price of commodities that are now under guidance-oriented planning and market regulation. We should let the market play its role and let competition invigorate the economy. At present, China's economic components consist of several ownership systems. Whether competition is launched within the same ownership system or among different ownership systems, there will be some negative effects. This problem can only be solved by establishing and perfecting some laws and regulations to standardize the market behavior (this of course includes laws and regulations pertaining to price management). As for the fact that in a situation where total demand far exceeds total supply, decontrolling prices will cause the general price level to rise, it is a total quantity control problem, and to solve this problem, the state must balance its overall plans. The existing state guiding price system cannot be held responsible for standardizing market behavior and stabilizing market prices. [passage omitted]

Review, Assessment of Contract Management System

90CE0377A Beijing JINGJI KEXUE [ECONOMIC SCIENCE] in Chinese No 3, 20 Jun 90 pp 40-44

[Article by Huang Yan (7806 3601): "Theoretical Review and Assessment of Contract Management System in Enterprises"]

[Excerpts] [passage omitted] Problems in the Existing Contract Management System

A. The determination of the contract base figure is an extremely erratic and complex one-on-one negotiating process. Because of the presence of subjective and objective factors, contract base figures are usually on the low side. To various degrees benefits are unequally distributed, the "fast cow is whipped," and pain and joy are unevenly distributed.

At present the enterprise contract base figure is usually arrived at by comparing the profitability and wage levels of enterprises, using the amount of profits and taxes realized and the total payroll as criterion in a vertical comparison. From the perspective of those enterprises that expanded rapidly and reached a peak in their output

a few years back, this method of determining the base figure is clearly a case of "whipping the fast cow" and militates against the mobilization of enterprise initiative. Moreover, an environment for equal competition is not yet in place because state assets at present are still basically being used by enterprises free of charge, prices are distorted, the tax system remains flawed, and the labor market is largely nonexistent. Consequently, the amount of profits and taxes realized by the enterprise to a large extent is the result of various noneconomic factors working on the enterprise and does not reflect its true profit margin. Obviously, the contract base figure arrived at in this manner is merely the outcome of bargaining between the enterprise and the government. The process is highly haphazard. The formula is different in each case. The lack of standardized yardsticks to make cross-comparisons within the same industry and the disruption caused by noneconomic factors preclude a reasonable distribution of interests between enterprises. Hence costs and benefits are unequally distributed and the fast cow is penalized.

We discussed above the objective factors interfering with the determination of a reasonable contract base figure. But they make up only one side of the issue. On the other hand, since the earnings of an enterprise and the amount of benefits its employees receive under the contract system depend on how much profits it realizes over and above the contract base figure, the enterprise, prompted by self-interests, naturally tends to underestimate its production potential. The tangible manifestation of this tendency is setting the contract base figure too low and bargaining with the department in charge. The objective existence of this state of affairs has created an additional difficulty for the government department concerned in its effort to arrive at a fair and reasonable contract base figure. Meanwhile, the development of a market economy and increasing changes on the market also complicate the government's effort to a certain extent. It can thus be seen that these various factors work together to make it hard for the government to work out a contract base figure that is appropriate for the enterprises in its present situation and acceptable to it. According to studies, a substantial number of enterprises are able to complete the annual contract plan in less than six months. In many cases, the profits realized exceed the contract figure several times over. We can thus see that setting contract base figures too low is a very serious problem.

B. The contract quota system remains imperfect and contract quotas are unitary, instead of being truly systematic and scientific. They have a string of negative effects on the normal operations of the enterprise.

1. Raising prices arbitrarily is the most common anomaly in enterprise behavior following the introduction of the contract management system.

Around 1985 and 1986, when enterprises first adopted the contract management system, the price level was still relatively stable, which was why the factor of price

increases was largely ignored in contracting. Profit was the principle quota in most contracting. As for the extent of increases in the prices of products, no explicit regulations and restraints were written into the contract quotas. Thus room was created for enterprises to behave erratically. They stand to reap a windfall effortlessly simply by raising product prices. And the bulk of enterprises which make a handsome profit through price inflation cannot take the initiative to demand that the base figure be raised. According to a sample survey on enterprises conducted by JINGJI RIBAO in June 1989, over 60 percent of the increase in contract profits was due to price increases. This being the case, even if all enterprises fulfill the contract profit quota, by how much would total social supply increase and to what extent would the level of social productive forces improve?

2. After the contract base figure is fixed, the enterprise often sets its sights on immediate profits during the contract period, ignoring long-term interests. This encourages short-sighted behavior on the part of the enterprise and causes enterprise consumption funds to soar.

Enterprises which were the first to go in for contracting were required to meet profit and output value quotas only. Seldom were they required to satisfy comprehensive evaluation criteria relating to the enhancement of their momentum, technological transformation, and technical progress. This objectively encourages short-sighted operational behavior on the part of enterprises. During the contract period, some enterprises often ignored to replace equipment, lived off their old assets, and disregard technical transformation and the self-accumulation of production funds. They fail to take the initiative to improve their internal accumulation mechanisms and restraining mechanisms. Consequently, enterprises had no capacity for expanded reproduction and no staying power and behave very short-sightedly. Meanwhile, in sharp contrast to the drop in their production funds, their consumption funds kept on rising. Data show that in about 95 percent of enterprises, the wages of workers rose faster than productivity. Even in enterprises where productivity fell, wages shot up. The expansionist trend of their consumption funds no doubt epitomized the short-sighted behavior of contracting enterprises.

C. The existing contract system has drastically altered the distribution relationship between the state and the enterprise, preventing state revenues from increasing in direct proportion to the rise in enterprise earnings.

The basic principle of the contract system is this. A fixed base figure is set for profits to be submitted to the state. The enterprise keeps the portion above the quota. But if the enterprise operates at a loss, it has to make up for the deficit from its own funds. In other words, an enterprise gets to keep the profit only after meeting its profit quota. Here national interests take precedence over everything else and are quantified as a specific contract base figure. It should be said that provided an enterprise fulfills its

contract, it has guaranteed national interests. But things are far from this simple. Because contract base figures are usually set too low these days, enterprises easily meet their commitments under the contract, while the state has little claim to the portion over and above the quota. Hence this anomaly: The government's share of total profits has dropped sharply and its earnings have not been rising in proportion to the enterprise's retained profits. Let us look at the distribution of total profits. In 1986 enterprise profits were divided into three parts—profits submitted to the state, loan repayments, and profits retained—in a ratio of 45:19:36. By 1987, however, the ratio had changed to 38:23:39. This shows that the distribution relationship between the state and enterprises has changed drastically after the contract management system came into existence, with state earnings dipping sharply. Actually the emergence of this phenomenon is no surprise. If only we go back and take a close look at the distribution system of the contract system, we can easily discover that the contract system is not the same as replacing profits with taxes. It is not a "rising-tide-lifts-all-boats" kind of distribution method. The contract base figure itself is a fixed unchanged value. The enterprise simply commits itself to delivering that amount, no more, no less. Given an unreasonable contract base figure, therefore, this distribution method from the start determines that government revenues will not grow at the same pace as enterprise earnings, making it inevitably that the former will decline proportionally.

D. The intensification of internal enterprise reform.

Contract management and internal enterprise reform are two basic components of the intensification of enterprise reform. The former is intended to straighten out the relationship between the state and the enterprise and create operational mechanism inside the enterprise. Successful contract management is a prerequisite for enterprise revitalization. The latter is intended to resolve the relationship between enterprise managers and producers and establish an economic responsibility system within the enterprise. Successful internal enterprise reform is the foundation of enterprise revitalization and is critical to fully demonstrating the superiority of the contract system. The two parts are so closely related that they are inseparable. Both are indispensable. But the situation right now is that many enterprises have not sorted out the relationship between contract management and internal enterprise reform, instead devoting their attention to bargaining with the department in charge and setting the base figure so low that they can fulfill the contract in relatively easy circumstances and reap more tangible benefits from contract management. At the same time, the enterprise pays little attention to the intensification of internal enterprise reform, spending little energy on the improvement of enterprise management and the increase of enterprise profitability. Many internal managerial measures have failed to keep pace with the contract management system. The distribution system retains elements of egalitarianism, which has prevented the effective mobilization of the initiative of

enterprise employees and the full implementation of the contract system by cutting it off "midstream." To some extent the benefits of the contract policy have been unable to come forth. [passage omitted]

The Limitations of the Contract Management System

The superiority of the contract system is visible to all, but after all it is only a transitional measure, not the ultimate goal, in enterprise reform. Because of its built-in contradictions and limitations, it cannot be our final choice in the reform of enterprises owned by the whole people. Given the present contract methods, we still have a long way to go before the enterprise really exercises decision-making authority in operations and assumes responsibility for its profits and losses.

The limitations of the contract management system find their concentrated expression in these days:

1. Since the contract system exists within a framework of unchanged property relationships, it is ineffective in totally removing government administrative interference from enterprises.

The introduction of the contract system has not changed the traditional property relationship with the result that administrative interference by the state in enterprises continues, albeit in different forms. For instance, while the enterprise enjoys expanded decisionmaking power in operations and management, such power does not include the right to fully dispose of its assets. The distribution of profits between the state and the enterprise is determined by bargaining between the two sides. Assets accumulated by the enterprise using funds in its own hands still belong to the state. Because the contract system fails to totally end government administrative interference, the enterprise develops a dual dependency in the course of operations: dependency on the state, on the one hand, and dependency on the market, on the other. Its dual dependency is a serious impediment to the intensification of enterprise reform right now.

Administrative interference in enterprises by the state under the contract system reflects the conflict between the new management method and the old property relationship. The new management method demands that the enterprise become an independent commodity producer, which, in turn, requires clear property boundaries between state and enterprise. Yet this objective requirement cannot be met under the contract system because the system leaves the original property relationship intact. The state remains the property owner and the enterprise remains the producer and manager. It is impossible for the enterprise to graduate step by step from producer-manager to property owner through the accumulation of self-funds (profits retained by the enterprise). Within the confines of the contract system, therefore, the enterprise cannot fundamentally end its subordination to the state and shake off administrative interference by the state. It follows that if we want the enterprise owned by the whole people to become a genuinely independent commodity producer, it is not

enough for us to stop with the contract system. Instead, we should gradually deepen reform, moving from changes in management methods to changes in property relationships.

2. The contract system was introduced amid ill-defined property rights relationships. When property rights relationships are fuzzy and the role of enterprise owner remains unfilled, the contract system is powerless to fundamentally resolve the perennial problem—the enterprise assuming responsibility for profits alone, not losses, leaving the state no choice but to passively accept the results of contracting.

The contract system sets a fixed base figure quota for profits to be submitted by a contracting enterprise to the state. The enterprise keeps the portion over and above the quota as profit. However, an enterprise operating at a loss has to make up for the deficit from its own funds. Moreover, it is stipulated that enterprise funds, made up of retained profits and the enterprise's share of state funds, will constitute a risk fund to be drawn upon in case the enterprise incurs losses. When an enterprise does not meet the contract quota, it will first turn to the retained profit for that year to make up the deficit. When that proves insufficient, it will then dip into the enterprise funds. This practice represents somewhat of a departure from the situation under the old order when everybody ate from the big rice pot and helps the enterprise become accountable for its own profits and losses and strengthen its budgetary restraints. Be that as it may, the contract system has done nothing to change the old internal enterprise structure and property rights relationships, with the state [as published] remaining a manager and producer. In contrast, the private capitalist enterprise in the West plays a triple role—owner, manager, and producer. In China, the enterprise is still mere manager and producer. The role of enterprise owner remains blank, a fact demonstrated by the unclear identity of the side that gives out contracts. The contract system means setting up a relationship of responsibilities, power, and interests between owner as established by the contract agreement and manager. The owner of the enterprise gives out the contract and the manager of the enterprise is the contractor. The signing of an agreement may take any one of the following major forms: 1) a government at any one level gives out the contract; 2) the government may designate a department such as the department in charge of enterprises or the finance department to give out the contract; 3) the government may bring together all the departments involved, which will then jointly organize a contracting market or contracting commission; 4) the structural reform commission, finance department, banks, economic commission, department in charge of enterprises, and the labor and personnel labor put their signatures on the agreement and jointly give out the contract.

The reality is that whichever arrangement we choose, the problem of the representation of enterprise owner cannot be solved at the root. This problem in turn causes a string of difficulties for any effort to improve the

contract system. For example, because the role of enterprise owner is unfilled, the wishes of the owner are not demonstrated in a concrete personalized form. As a result, the enterprise owner only concerns itself with issuing contracts and ignores to exercise effective supervision over contract compliance. Second, because the enterprise manager usually is responsible for meeting business objectives during the contract period only and it is the owner which represents the enterprise's long-term interests, the absence of clear representation of ownership is another important reason why enterprises tend to act in a short-sighted way. Third, the absence of an enterprise owner leads to the fragmentation of ownership functions among a host of agencies, including the finance department, banks, the structural reform commission, the economic commission, the department in charge of enterprises, and the personnel and labor department, thereby encouraging interagency obstruction and buckpassing, which impedes the smooth development of the contract system. Fourth, objective economic laws make it clear that if an enterprise goes bankrupt or operates at a loss, the one who pays is the property owner, not enterprise manager or producer (this is the case whether the enterprise is owned by the state or an individual). This determines that after the introduction of the contract system, the enterprise which meets the contract quota is rewarded correspondingly whereas the enterprise that fails to do so usually has difficulty making good the losses completely with funds at its own disposal. Ultimately it is the state that has to foot the bill. It can thus be seen that under the present conditions, it remains a daunting job to truly realize the 16-character goal to the full and make the enterprise genuinely responsible for its profits and losses.

3. The contract system has consolidated the existing structure, which works against the adjustment of the industrial structure.

In the course of contracting, as soon as the enterprise and the department in charge sign the contract, the former obtains the right to exist and develop under the law. This way all industries, whether they produce goods with no consumer demand or goods in great demand, must increase output to meet the contract quota. In effect this amounts to an undifferentiated industrial policy. It consolidates the existing structure and distribution, which is unfavorable to the adjustment of the industrial structure. Furthermore, the contract system is powerless to create internal mechanisms for the effective adjustment of the stock of state properties. The optimal reorganization of elements of production is often confined to enterprises within one bureau or ministry, thereby precluding the reasonable allocation and optimal reorganization of elements of production in a larger area. This shows that the existing contract system is not adaptable enough to meet the objective requirements of the development of a commodity economy based on socialized mass production. It is a fairly elementary method of doing business.

Contradictions Hamper Industrial Readjustment

90P30075A Beijing JINGJI CANKAO in Chinese
26 Jul 90 p 1

[Summary] Many experienced economic personnel in eastern China believe that the following five major contradictions must be resolved before proper readjustment of industrial structure can take place.

1. Readjustment of the industrial structure directly contradicts local governments' desires to achieve production goals at high speed. Because they pursue greater output value at all costs to increase revenue, they are not willing to readjust industrial structure.
2. Factory closedowns, stoppages, and mergers conflict with maintaining social stability. Lacking a social security system and unemployment benefits, it is difficult for the state to shut down enterprises which incur huge losses or debts.
3. Administrative interference contradicts the stated policy of "assisting the good units and restraining the bad ones." One banker noted that banks are now instructed to "support" first-category enterprises, "assist" second-category enterprises, and "maintain" third- and fourth-category enterprises. But because of limited funds, banks are forced to lend a little to all enterprises and cannot implement this policy.
4. Readjustment of industrial structure conflicts with enterprises' short-term behavior. Certain contractors are more interested in distributing profits among workers than accumulating capital and are therefore hindering future development.
5. There is a contradiction between structural readjustment and the shortage of funds. Although credit is the most effective tool for readjusting the industrial structure, it is difficult for banks to effectively ease credit with only a limited amount of funds and a growing number of problematic loans. The 12.4-billion-yuan loan extended to township enterprises in one eastern province constitutes one-fourth of the total loans granted to township enterprises throughout China.

In view of the above, these economic personnel recommend the following: Strengthen the central government's macroeconomic control over finance and banking to concentrate more locally reserved funds on industrial readjustment and to check regionalism; quickly establish a social security system and an unemployment compensation scheme to mitigate any potential instability caused by enterprise readjustment; revise the amount of enterprise operating funds according to actual price increases and production development; use preferential interest rates to promote state industrial policy; and formulate concrete policies to actively encourage enterprise mergers.

PROVINCIAL

Family Planning, Economic Assistance in Tibet

HK0709024290 Beijing JINGJI CANKAO in Chinese
4 Aug 90 p 1

[Article by staff reporters Wu Guoqing (0702 0948 3237), Huang Xiaonan (7806 2556 0589), and Duo Qiong (1122 4522): "Tibetan Concepts of Birth Control Are Changing"]

[Text] In Tibet, these reporters saw moving scenes in many places in which Tibetan peasants and herdsmen actively carried out family planning, and they heard the discontent expressed by the masses over Tibet's backward family planning work.

At the in-patient department of the Jiacha County Hospital, they interviewed Chuoma, a 20-year-old woman from a village. After giving birth to her first baby, she insisted that the doctor perform a sterilization operation on her. She said: "One child is enough. Too many children would be a great burden."

Ciren Yuzhen, the Tibetan doctor of the women and children health station who performed the operation on the lady, told these reporters: "The farming and pastoral areas of Tibet are perhaps the only places in our country where family planning is not practiced. However, many women in these areas request the sterilization operation, thus causing difficulties for the hospital. Normally it would perform operations on those women peasants and herdswomen who already have many children, and who have obtained the government's approval and come with relevant introduction letters. Under such conditions, the hospital performed over 60 operations of this kind last year. According to figures, of the 4,000-odd childbearing-age women in the county, over 1,200 have begun to use contraceptives, and over 700 have undergone sterilization operations.

By way of introduction, Puxi Jiejie, the Tibetan deputy head of the Women and Children and Family Planning Office of the Autonomous Regional Public Health Department, said: In Tibet, at the request of the masses, some family planning work has been voluntarily carried out in over a dozen counties and cities. People in the suburbs of Lhasa and in Shannan and Xigaze prefectures have made the strongest statements in favor of family planning. He said he personally believed this: "Although it is the nationality policy of the party and government to take special care of the Tibetan nationality as far as birth control is concerned, if the Tibetan masses do not refrain from having children, the nationality's living standards will not improve."

These reporters were told that in the early years after Liberation, Tibet's population was only 920,000, but last year it rose to over 2.15 million. It is expected that the population will exceed 2.6 million by the end of the century. The excessively rapid population growth has placed limitations on Tibet's economic development and

on improving living standards. Although Tibet accounts for one-eighth of the country's total territories, half are barren, and 44 percent are mountains, deserts, and grasslands. It only has 3.5 million mu of arable land, and the per capita arable land is only 1.3 mu.

Its land has been fully utilized and is still unable to supply its own food, and its economy is not independent. Last year, the state granted a total of one billion yuan of financial subsidies to Tibet, representing 99.7 percent of the expenditures of the whole region, and the grain transferred into the region totaled over 150 million kg. In 1975, the state spent 136 million yuan transferring supplies into Tibet, but in 1989 the expenses reached 611 million yuan.

Meanwhile, in farming and pastoral areas, 70 percent of the population are illiterate or semi-illiterate, 30 percent in cities and towns. In addition, the number of people who are born feeble-minded, mentally retarded, and variously deformed is 100,000, five percent of Tibet's total population.

Many far-sighted people in Tibet have a very clear understanding of these problems, while some members of the Chinese People's Political Consultative Conference and delegates to the National People's Congress have made appeals repetitively. It was learned that the Tibet Autonomous Regional Government is discussing the formulation of regulations known as the "Provisional Regulations Governing Family Planning Work" so as to make it possible to appropriately and systematically start family planning throughout the region.

FINANCE, BANKING

Long-Term Financial Reform Ideas Discussed

90CE0389A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 6, 11 Jun 90 pp 17-21

[Article by He Zhenyi (0149 2182 0001) of the Academy of Social Sciences of China's Institute of Finance, Commerce, and Commodities Economics: "Thoughts on Restructuring the Financial System in the Next 5-10 Years"]

[Text] I. The Financial Situation and Reform Strategy

When thinking about the next step of financial reform, we must start from reality. A decade of financial reform since the Third Plenary Session of the 11th Party Central Committee has produced undisputed results. It has contributed much to supporting reform and opening up, promoting production and construction, developing scientific, cultural, and educational undertakings, and to raising the standard of living. Meanwhile, we have also run into serious financial difficulties.

1. We have had financial deficits year after year: According to China's method of calculating its budget, we have accumulated more than 76.5 billion yuan in

deficits between 1979 and 1989. According to customary international practices, that is, counting debt income as deficit, the cumulative deficit has exceeded 210 billion yuan, which equals 78.7 percent of the state's total 1989 revenue and 13.3 times the GNP.

2. Debts are mounting with no sign of easing off: Adding domestic and foreign debts together, the 1989 debt balance was 6.7 times larger than 1979's. In 1979, we owed only 3.5 billion yuan; in 1989, our debts rose to more than 27.4 billion yuan. We are entering a peak debt payment period this year. It is estimated that our debt payment each year will exceed by far the increase in state revenues for that year. If the necessary reform measures are not taken, we will find ourselves in a vicious cycle where we must borrow new loans to pay old debts.

3. A localized problem has developed into a universal problem: In the early days of reform, only the central government was running up deficits; local governments even had surpluses. Today, even local governments are in financial trouble, and nearly half of the counties are unable to balance the budget.

The economy is the determining factor in the country's finances. If the economy is growing, the financial situation should also be improving. After a decade of reform, China's economy has sustained a high rate of growth. Why is her financial situation in shambles? Of course there are many reasons, but I think the most direct and important causes are the chaotic social distribution and the national income distribution policy that leans too heavily towards enterprises and individuals. Chaotic social distribution not only diminishes public finance's macroeconomic regulation and control ability but also allows some of the national income to leak out of the financial distribution system through the circulation sector and the redistribution process; it drains much of the state's fiscal revenues. It is estimated that we lost more than 40 billion yuan this way in 1988 alone. The national income distribution policy that leans heavily towards enterprises and individuals reduces the state's fiscal income as a percentage of the national income. One year before the reform, fiscal revenues made up 37.2 percent of the national income; by 1988, they slipped to 19.2 percent, dropping 18 percentage points over a 10-year period. Based on the 1988 national income, a decrease of one percentage point reduces the state's fiscal income by 11.7 billion yuan, and so fiscal revenues were down by more than 210 billion yuan in 1988. While fiscal revenues continue to fall sharply, the increase in fiscal expenditure has not slowed. How can the country not be in financial trouble?

If the grim financial situation is not turned around quickly, it will hinder the reform efforts of the Eighth Five-Year Plan. For this reason, financial reform during the Eighth Five-Year Plan period must plant its foothold on surmounting the financial difficulties. We must begin by increasing public income relative to the national income and the central government's income relative to the total income. Only by adopting a three-pronged

strategy—rely on reform to solve the financial problems; solve the financial problems to promote reform; smooth out the allocation relationships, rectify allocation order, and adjust the allocation pattern—can we open up new prospects for financial reform and get good results.

II. Choosing a Specific System

A graded system is the set goal of the restructuring of China's financial system; it is also the system accepted by our fellow countrymen. But via what specific mode do we achieve this goal? There is no general agreement. Some people believe that the existing grand financial contract system is the ideal mode. Others believe that the classified tax system is the only way to establish the graded financial system. Both positions are valid to an extent, but if we take into consideration the country's conditions, I think both are limited and neither is a good choice.

1. The existing grand financial contract method may play a unique and positive role in encouraging the localities to put their financial affairs in order and to make money on their own. But it has serious drawbacks. It not only generates fixed income for the state, limits the increase in state revenues, and adds to the central government's financial difficulties, it also diminishes the central government's macroeconomic control and regulation capability and intensifies local economic separatism. These defects work against the efforts to set up the planned commodity economy's operating mechanisms.

2. The classified tax system can be interpreted in two ways: One is to put the emphasis on "tax" and interpret classified tax as establishing different tax categories, tax rates, and total taxes for the central and local governments. The other is to put the emphasis on "system" and interpret classified tax as separating the central government's tax system from the local governments', that is, to have two separate, central versus local, tax systems. I think the classified tax system proposed in China's economic reform refers to the latter and not the former, because the classified tax system that creates separate tax categories has already been put into practice since 1980 under the system of "eating out of separate pots." Under that system, customs and industrial and commercial taxes delivered by the Ministry of Railways are allocated to the central government as part of its fixed income. The remaining industrial and commercial taxes are shared between the central and local governments to regulate their income. Salt tax and agricultural and livestock taxes, industrial and commercial income tax, slaughter tax, car and boat license tax, urban real estate tax, livestock exchange tax, and market exchange tax go to the localities as the local governments' fixed income. Obviously, this is a classified tax system that separates the tax categories. In particular, when the new financial system went into effect in 1985, we not only continued this method of separating the tax categories but specifically named this the "separate tax category and graded contract responsibility" system.

The separate "systems" classified tax system is a graded financial mode that promotes the development of the commodity economy. Theoretically, if we want to develop a planned commodity economy in China, the ideal graded financial system should be the classified tax system, because it is superior to any other graded system. Compared to the separate tax category-kind of classified tax system and the grand contract mode, this alternative is clearly superior in the following respect: One, it prevents the localities from favoring some enterprises over others, encourages the local governments to serve and supervise all enterprises equally without discrimination, and promotes fair competition among enterprises. Two, it keeps the local governments from interfering in enterprise production and operation and helps enliven the economy at the microeconomic level. Three, it mitigates the effects of localization of financial benefits which tend to foment regional separatism and increase key constructions. Four, it promotes the separation of the central government's rights, responsibilities, and profit from that of the local governments', brings central and local initiative to play, and facilitates the use of financial levers at the central and local levels. It is because of these advantages that many people have placed the hope of eliminating the defects of the existing financial system on the classified tax system and believe that this is the best mode for restructuring the financial system.

I used to favor this separate "systems" form of classified tax system (simply referred to as classified tax system below), but after careful studies, I have discovered that the system cannot be promoted nationwide—at least, it will be difficult to implement the system nationwide within the foreseeable future. This is because: (a) In a vast socialist country like China, where economic and social developments are very uneven, the classified tax system will not produce positive results in most provinces. If not handled properly, it can even lead to the restoration of the old systems. Due to historic and natural conditions, there are great disparities in productivity as well as in socioeconomic development among different regions, and therefore the financial situation varies greatly among regions; some are much more capable of taking care of themselves financially than others. Some regions are not only capable of supporting themselves but have enough leftover to deliver to the state; some can just support themselves and have nothing to give to the state; some are unable to take care of themselves and must depend on the state's support. Nationwide, with the exception of Taiwan, Hong Kong, and Macao, 13 out of the 30 provinces, municipalities, and autonomous regions cannot support themselves financially; besides retaining all of their own income, they must also depend on large amounts of state subsidies in order to meet their minimal needs. What is the point of implementing the classified tax system in these provinces? If we insist on it, we will just take away their income with one hand and turn around to give them even more subsidies and appropriations. The result will be the same as restoring the system of state monopoly of

revenue and expenditure. We will be heading in the opposite direction to our reform goal and will reinforce these regions' idea of "wait, depend, and beg" rather than arouse their initiative. There are seven provinces which are financially self-sufficient but must retain all of their income to satisfy their basic needs. If the classified tax system is adopted, and if the state takes away some of their revenues, it will take away their financial independence. Instead of being self-sufficient, these provinces must now depend on the state's financial support, which again will return us to the system of state monopoly of revenues and expenditures and will dampen these provinces' enthusiasm in producing their own income. Since it is not only pointless but can in fact be harmful to implement the classified tax system in nearly 20 of the 30 provinces, municipalities, and autonomous regions, what good will it do to implement the system nationwide? (b) It is technically very difficult to implement the classified tax system nationwide. The first problem we will run into is how to handle the tax rates for the central versus the local tax systems. In view of the great disparities in financial sufficiency among different regions, neither the central nor the local tax rate should be too high or too low. So far as the central tax system is concerned, if the tax rate is too high, the poorer regions will have nothing left and must depend on the central government for survival. This will mean bringing back the old system. If the central tax rate is too low, although it will help make the poverty-stricken regions more self-sufficient, it will generate surpluses in the richer regions, and meanwhile the central government's income will diminish to the point that it is no longer able to meet its basic needs. To solve this problem, the central government may have to ask the wealthy regions to hand over more money, which again will return these regions to the old system. Some people suggest that this problem can be solved by varying the tax rates regionally; that is, impose high central tax but low local tax in the wealthy regions and lower the central tax and raise local tax in the poor regions. But is this right? The answer is, of course, no; because this not only violates the principle of fairness and efficiency in taxation, but also ignores the demands of the development of the commodity economy, the establishment of the unified domestic market, and thwarts the reform goals. Thus, when China implements the graded financial system, it must not implement the classified tax system indiscriminately. Only by taking into account local conditions and each region's financial capability and sufficiency, and choosing the proper grading method, that is, adopt several modes of grading, can we achieve the intended reform goal and maximize the graded financial system's benefits.

III. The Basic Reform Concept

Once the goal of reform is set, the correct reform thinking becomes the decisive factor in its success or failure. Different reform programs formulated under the guidance of different reform ideas will produce different results. Reviewing our reform experiences over the last decade and more, the following ideas deserve our careful

thoughts when implementing financial reform in the Eighth Five-Year Plan period:

1. Should we emphasize material incentive or perfection of the restraining mechanisms?

Looking back at the course of China's financial reform, we can clearly see that for more than a decade the reform has followed the path of handing down authority, yielding profit to the lower levels, and increasing material incentive. The financial reform began at a time when China had a highly centralized system of state monopoly of revenue and expenditure. It is no doubt necessary to begin the reform by handing down authority and yielding profit, but it is not a long-term solution, because this method only adds the element of material incentive to the framework of the old system and strengthens that element. It helps to set up the incentive mechanisms but does not help us fulfill the goal of creating a new system. The old system was lacking in material incentive, but even more lacking were the self-restraining mechanisms. Under normal circumstances, economic incentive and economic restraint should balance each other. Economic restraint limits the impulses triggered by the economic incentive to the level necessary for normal socio-economic development. If the system is not set up properly, economic incentive and economic restraint will lose balance and symmetry, and then either the impulses are too strong or the restraint too rigid; both can hurt society as well as the economy. Thus, if we over-emphasize handing down authority and yielding profit to the lower levels when restructuring the financial system and focus only on reinforcing the incentive mechanisms and overlook the restraining mechanisms, we will not only upset the balance among responsibilities, rights, and profit, but also divorce incentive from restraint and let the incentive mechanisms run amok. This is why after more than a decade of financial reform, there is no more authority to hand down or profits to yield up, although some people whose avarice knows no bounds still clamor for more power and more profit. For reform under the Eighth Five-Year Plan, we must change the direction of our reform thinking and concentrate on perfecting the restraining mechanisms and emphasize both incentive and restraints.

2. Should the state's two economic functions be separated or mixed together?

Our economic theory has always mixed the government's function to manage the economy and the state's function as owner under the ownership by the whole people system. Influenced by this theory, throughout history, we have mixed the two functions, whether we are fashioning a centralized power system or a decentralized system. Things have not changed since the restructuring of the economic system, and we continue this line of thinking as we formulate the new system. As reflected by the financial system, the scope of revenue and expenditure is still defined by whose administrative jurisdiction specific enterprises and institutions fall under. We are still mixing the distribution between government and

enterprises and the distribution between owner and enterprises. Although in the broad sense both distributions are economic functions of the socialist state, they are different functions in essence. The former is the state's function to maintain normal order in society's economic activities and complete society's joint economic undertakings which the production units and individuals cannot or should not undertake but which are essential tasks which safeguard the normal social reproduction process. On the other hand, the function as owner in the ownership by the whole people system deals with the property rights relationships. The two functions follow different laws, and it is dangerous to mix the two when formulating a system. More than a decade's reform practice proves that mixing the two not only causes confusion between the government's administrative power and financial power and mixes government with enterprises, it also hinders efforts to set up the planned commodity economy's operating mechanisms. It is even more harmful to mix the two functions when we restructure the financial system: To do so is to hand the government the obligation to pay taxes and the right to levy taxes at the same time. As one who performs society's joint economic functions, the government is the tax collector; as one who fulfills the functions of owner in the ownership by the whole people system, it is in fact the tax payer. As the financial reform develops, the localities will grow increasingly more interested in their own welfare, and local governments can wield their administrative power and power as owners and use the state assets under their disposal to maximize local benefits. This will localize the benefits generated by state-owned assets and lead to such problems as redundant construction, redundant production, and regional blockade. Thus, if we want to move the financial reform forward and open up new possibilities, we must abandon the idea of mixing the two functions; we must guide the reform with a new way of thinking.

3. Should we protect the vested benefits or adjust the pattern of distribution?

An unwritten law has been in effect since the restructuring of the financial system: The central government's financial benefits can only be reduced and enterprises' and local benefits can only be augmented. Every reform step aims to protect enterprise and local vested interests, and incremental income is the only thing open to negotiations. This method may be valid in the early days of reform, but today macroeconomic allocation is already leaning heavily in favor of the localities and enterprises, and if we persist in protecting their vested interests, it will be in vain to want to raise the government's income relative to the national income and the central government's revenues relative to the total revenue. More serious is that the early part of the Eighth Five-Year Plan will be steeped in rectification and improvement. Economic development will be relatively slow during this period and so will the increase in financial revenues. If we insist on protecting the vested interests, we can only continue the existing distribution pattern, and the government's income and revenue will continue to slip

relative to the national income and total revenue, and we will never get out of the financial "pit." This will be detrimental to both the reform and socioeconomic development. Thus, during the Eighth Five-Year Plan period, if we want to realize the rectification and improvement goals and put the economy onto the track of sustained, stable, and smooth development, we must insist on readjusting the distribution pattern.

IV. Reform Steps and Substance

A. The Eighth Five-Year Plan

The first two years of the Eighth Five-Year Plan are taken up by rectification and improvement, and in terms of a reform program, we have to make some interim choices. Basically, the period can be divided into two parts, the first two years and the last 3 years, in which the reform will cover different grounds. After a year of rectification and improvement, China's economy has stabilized, but the more deep-seated causes of economic instability have yet to be dealt with. The grim financial situation has not been improved. It will be a long time before things really turn around. Therefore, during the Eighth Five-Year Plan period, we should not implement any drastic financial reform measures. In particular, during the first two years, we should implement only those measures that facilitate the readjustment of the distribution pattern and help us get out of the financial "pit." The more drastic reform measures aiming to overhaul the financial relationships should be put off until the latter part of the Eighth Five-Year Plan and the next five-year period. Accordingly, it seems safe and necessary to implement the following measures during the first two years of the Eighth Five-Year Plan period:

1. We should perfect the graded contract system and overcome the shortcomings of the existing grand contract system. The defects of the grand contract system are caused mainly by the poor contract format and the way the contract bases are determined. Therefore, the contract system should focus on improving these two aspects.

2. We should reform the extra-budgetary fund management system and gradually put back into the system the revenue and expenditure items proven by practice to be wrong to have been left out of the budget management system. Primarily: (a) We should weed out the "money-making" projects and improve conditions to help rectify distribution order. The current rush to set up "money-making" projects by businesses and industries, especially the way public utilities are encouraged to "make money," is extremely dangerous. It not only disrupts the normal order of society's division of labor and disrupts the distribution order, but also undermines the development of the planned commodity economy. If the situation is not firmly dealt with, it will become a major obstacle to rectification and improvement, as well as to efforts to surmount the financial difficulties and establish a new economic order. There must be no doubt about this point. (b) We need to sort out the various

"apportionments." By first drawing the boundary between normal payment for labor and services and apportionment, we can eliminate all apportionments and replace them by a uniform local tax. Apportionment in essence is a kind of taxation, except it is a highly disorganized, anarchic, extremely decentralized way of levying taxes. It jeopardizes public finance as well as the economy. Economically, it interferes with the normal accounting order and hinders enterprises' accounting process and leaves the door open for all sorts of unhealthy tendencies. Financially, it leaves a hole from where our financial resources drain. Therefore, weeding out the "money-making" projects and the "apportionments" during rectification and improvement is vital and should be treated as a key reform measure in the first two years of the Eighth Five-Year Plan.

3. We should promulgate a state budget law to make the state budget truly binding.

4. We should restructure the circulation tax system and enhance the state's ability to collect, control, and regulate the circulation tax so as to stop the draining of fiscal income through the circulation sector and rectify circulation order at the same time.

5. We should deepen enterprises' internal reform and launch an all out effort to determine fund sources through physical inventory and promote an enterprise internal accounting system, striving for new breakthroughs in improving economic efficiency.

Beginning in 1992, the second round of enterprise contracts will begin to expire. In addition, as the above reform measures are put into effect, society's distribution order and enterprises' external environment will be greatly improved. Thus, in the last three years of the Eighth Five-Year Plan period, we can implement more drastic reform measures to deal with the relationship between public finance and enterprises.

1. We can promote comprehensive reform to separate taxes from profit and enter into after-tax contract. To this end, we must reform the tax system, add new local tax categories, and modify the income tax system. Upon completing that, we can change pre-tax debt payment to after-tax debt payment. Some people suggest that to separate taxes from profit is to reject the contract system. The fact of the matter is, separation of taxes and profit and the contract system are not mutually exclusive. On the contrary, separation of taxation from profit is an indispensable part of the perfection of the contract system. As we all know, the current contract system is based on the second step of reform to substitute taxation for profit delivery. The original intention of the second step of substituting taxation for profit delivery was to remedy the defects of mixing government and enterprises and to stabilize the distribution relationship between the state and enterprises. But we neglect to distinguish the distribution between government and enterprises and the distribution between property owner and enterprises when we set up the implementation

procedure. We turn all profits delivered by enterprises into taxes. As a result, these two different distribution relationships are again mixed together when it comes to taxation. The contract system built on this foundation cannot help but produce many negative results: One, it makes the problem of mixing government and enterprises even worse. In essence, contracting is a form of separation of the owner's ownership rights and the manager's management rights, and with respect to distribution, it clarifies the obligation of enterprises to pay dividends to the owner. But if profits are turned into taxes; if the profits handed over by enterprises become taxes, then there is no profit to be allocated between the owner and enterprises, nor is there any profit to be guaranteed in the contracts. The only thing left to be distributed and guaranteed is tax. But to guarantee tax payment will infringe upon the interests of governments at all levels, and consequently the responsibility contracts can only be administered by the government managing departments or even the mayors. The speed of enterprise development, the types of technological transformation projects, and the use of retained profit, etc., are all determined by the government. This not only does not reduce, but actually increases, the government's administrative intervention in enterprise production and operation decisions; there is no more separation of government and enterprises to speak of. Two, it diminishes the seriousness of the state's tax system and does not give play to the functions of taxation. Although the present contract system explicitly requires enterprises to follow regulations and pay taxes, so long as taxes and profit and the two forms of distribution are mixed together, no matter how law-abiding and conscientious enterprises are in paying taxes, it does not change the fact that all they are guaranteeing are taxes, and eventually the income tax they hand over must be distributed according to the contract provisions and the money they are entitled to must be refunded. Income tax ultimately exists in name only and has no practical use. The money-losing enterprises especially enter into contract to cut losses, and when it comes time to pay up according to contract, enterprises must be paid the money they are entitled to out of the industrial and commercial taxes they have just handed over, and as a result, the industrial and commercial tax system too loses its validity.

Thus separating tax and profit will benefit public finance and strengthen the tax system; more important, it will help perfect the enterprise contract system and is an inevitable step toward achieving the separation of government and enterprises and ownership and management rights.

2. We should revise the way the state figures its budget. We should implement a dual budget system and put ordinary budget and investment budget under separate accounting and management.

B. The Ninth Five-Year Plan

Public finance will enter a critical reform period under the Ninth Five-Year Plan. We should proceed to smooth

out all relationships. We should accomplish the following major reforms during this period:

1. We should thoroughly restructure the state asset management system. By redefining the scope of the government's functions at all levels, we can separate the government's two different economic functions and set up an independent and effective state asset management system.

2. We should thoroughly restructure the state financial management system. We should adopt different graded formats to smooth out the financial relationship between the central and local governments and among governments at all levels.

Report on Debt Settlement in Liaoning

90CE0447A Beijing JINGJI CANKAO in Chinese
27 Jul 90 p 2

[Report edited by Xu Aiqin (1776 1974 3830) and Wang Xuejiang (3769 1331 3068): "Where Is the 'Defective Area'?—A Survey of the Work To Sort Out the 'Triangular Debt' Problem in Liaoning Province"]

[Text] The cry to "settle debts" has been heard for a long time in China. At the very start of spring this year, the State Council further decided to completely settle the "triangular debts" problem. What, then, is the current situation? Recently, this newspaper reporter visited and gathered materials from some general departments, banks, and enterprises.

Paying Off Debts Here and Running Into Debts There

According to Liaoning Industrial and Commercial Bank, enterprises having accounts with the bank had "triangular debts" of 10.6 billion yuan early this year, and it increased to 13.72 billion yuan in March. At the end of April, the debt declined to 11.4 billion yuan through a concentrated effort of debt settlement; early May showed yet another increase in debt. What is worrisome is that the settlement of old debts is followed by new debts, which are on the rise. From January through May, the industrial and commercial banking system in the province settled debts of 6 billion yuan, yet new debts worth 3.7 billion yuan appeared.

Liaoning Provincial Construction Bank has made great efforts to deal with the problem of clearing up debts. Yet, things have gone contrary to their intentions. Cases of paying off debts and borrowing money simultaneously or first settling debts and then contracting new debts are very serious. Up through the end of March, enterprises with accounts in the bank had delayed paying off or owed a total amount of 2.54 billion yuan. Money for construction and real estate purchases accounted for 1.44 billion of the total debt, which corresponded to 23 percent of the annual work volume for all these construction enterprises. Since 1987, the province has recovered

construction debts worth 560 million yuan, but during the same period of time new debt worth 880 million yuan has been contracted.

The alarming phenomenon is that those enterprises tied up in "debt chains," especially those enterprises and banks holding "IOU's," who are the main actors in "debt settlement" and were quite active in the past, are now having a change of attitude.

Several factory directors told this reporter privately that, because banks "take the lead" in clearing up debts, 50-70 percent of the debts recovered goes to the banks. If factories send their own men out to collect debts, even though it takes money and effort, the amount they want repayed is that which is within their control. On the surface they participate in debt settlement, but in actuality they are certainly not active.

What is worth further thought is that even the banks are not active in the debt settlement process. During the interviews, two bank directors said that there is a general tendency for enterprises to depend on banks for debt settlement. In reality, debt settlement has become a "pushed" process, with the government directing, the banks playing the lead, and the enterprises playing the supporting role. Viewed from the angle of actual operation, every time a large-scale debt settlement drive starts, banks have to invest a considerable amount of "start up" funds. Although they are called "start up" funds, they do not produce a satisfactory activating effect, yet they do affect banks' fund transfers.

It is said that Liaoning Provincial People's Bank intended to initiate a debt settlement drive within the banking system. After adding up all of the figures sent from regional banks, the bank found that they owed 100 million yuan in "IOU's," whereas the "IOU's" owed to them were only worth several million yuan. The plan had to be dropped in the end.

Some regional leaders also show biased thinking. On the one hand, they demand that enterprises under their leadership press other regions for debt repayment. On the other hand, they restrict these enterprises from paying off their own debts. This is a new form of regional protectionism.

Tracing the Roots for a Cure for the Obstinate Malady

Currently many regions have already formed a "debt repudiation mechanism." Haven't we often heard such sayings as "it doesn't pay not to be in debts" and "we don't have money, but we have life?" This, however, is by no means the truth of the matter. The fundamental reason for the serious debt problem in recent years has to do with the constant expansion of capital construction and extremely overstocked products, which ties up large amounts of capital, and tied-up capital is "dead" capital.

According to reports, the Industry and Commerce Bank of Liaoning Province granted 2.72 billion yuan worth of industrial loans between January and May of this year,

an increase of 1.5 billion yuan over the same period last year. The investment was not trivial, yet the outcome was unsatisfactory. Another group of figures shows that at the end of last year the amount of capital tied up in inventory goods was 7.6 billion yuan. By the end of April this year it was 9.6 billion yuan, with an average monthly increase of 500 million yuan. Currently the total amount of inventory goods in the province already constitutes 27 percent of the capital quota.

The tie-up of funds in capital construction is getting worse. Defaults on construction loans have already caused problems for many enterprises. It was learned that one-third of the total defaults on loans in the three northeastern provinces are defaults on construction loans. An analysis of the reasons shows that, first of all, projects outside the plan lack investment sources. Second, although some projects have appropriate sources of capital, the projects cannot receive the capital for a long time. Take the 35 large and medium projects in Liaoning Province which are listed as key state projects, for example. Although 13 projects have operational funds and have arranged bank loans and bond investment plans, they have not even received a cent in nearly six months. These projects have been operating normally, however. What do they rely on? They rely mainly on loans. Third, some construction units have money to develop new projects, but not to pay off old debts. They rely on being in arrears to others in order to develop themselves.

Sun Xuebin [1327 1331 1755], president of the People's Bank of Shenyang, also mentioned other causes for the defaults. First, the scope of national capital construction has been controlled, but factories which provide products to the capital construction industry are still operating at full speed. Many provinces and cities are still concentrating on processing industries to develop their economy, and capital has not been withdrawn from this "battle front." Second, quite a few enterprises which look profitable are in actuality in debt. They did not cancel assets which should have been canceled after verification. The real value of their assets could be less than half of their book value. These enterprises deceive the public by being in arrears. Third, enterprises generally lack the ability to compensate for their own operating funds, and thus have to rely on loans in order to operate. He said that banks throughout the nation had resumed the business of collections and acceptances, but without much effect.

It seems that, in order to truly resolve the debt problem, the scale of capital construction must be controlled and the product mix must be adjusted. Focusing research merely on debt defaults would be like treating just the head for a headache or treating the foot for foot pain: there would not be any real effect.

Further Steps Must Be Taken

Some economists have written out quite a few "prescriptions" for resolving the debt problem, some of which are sound and worthy of consideration.

First of all, the product mix must be truly adjusted, so that production of unwanted commodities is reduced. At the same time, attention should be paid to resolving the problems key enterprises have with marketing channels for their products. It is not that these enterprises need loans, but rather money to buy or sell their products. On the other hand, we cannot neglect funding and raw materials support for medium- and small-sized enterprises. Facts have shown that, without the vitality of medium- and small-sized enterprises, it is hard to have a lively market. Opportunities should also be provided for industries whose development is restricted by the state. We cannot "smash the pot just because it is cracked."

Second, the amount of funds tied up in capital construction should be reduced. Authorities concerned should supply funds in a timely manner to those projects within the plan which are entitled to funds but which have received no or insufficient funds. The investment system should be reformed. Capital construction and technological innovation projects which conform to the state's industrial policy should be allotted funds, and their operating funds should be brought into line with the scale of fixed capital investment. Otherwise, these projects cannot start operations.

Li Changchun [2621 7022 2504], former governor of Liaoning Province, stated that, when there is a shortage of monetary capital, revitalizing capital in the form of goods is one important way to reduce debt defaults. He believes that some enterprises are unable to maintain normal operations because their funds are tight and they are unable to purchase raw materials. On the other hand, enterprises and departments which produce or distribute raw materials are overstocked, and their goods and materials cannot enter the reproduction cycle. In these circumstances, those with overstocks should open their warehouse doors and use charge account trading methods: let producers use these materials and settle accounts after they have sold the products, or have banks take charge of settling the accounts. In addition, since monetary capital is tight at present, circulation could be enhanced by using negotiable instruments, barter trade, or other methods. This would not only help to avoid delayed loan payments, but would also work to clear up debts.

During the interviews, many insightful people called on society with a single voice: Promote an environment in society which favors debt settlement. First, enterprises should be allowed to keep more funds from debt repayment during the process of clearing up debts, so that they can taste the sweetness of clearing up debts, which could enhance capital flow and promote production. Second, combine "fighting" with "protection." Regulations for settling accounts must be strengthened when resuming the collection and acceptance of bills. Impose economic punishment, such as penalties or compensation, on enterprises which refuse to pay off debts or indefinitely prolong repayment. Third, use the legal system. Laws related to debt and negotiable instruments should be formulated as soon as possible; these should stipulate the

rights and responsibilities of banks and enterprises, and strengthen behaviors which conform to standards, so that debt settlement will become a conscious action for both sides. Fourth, the role of banks should be changed from helping enterprises settle debts to helping activate the market. Once the market is active, the debt chain may be easily undone.

Problems With Promoting Treasury Bonds

90CE0446A Beijing JINGJI CANKAO in Chinese
28 Jul 90 p 1

[Article by Yang Guangzeng (2799 1684 1073) and Liu Qian (0491 5409): "Let's Restore the Reputation of the Treasury Bond—A Report From the Treasury Bond Market"]

[Text] China has issued 51 billion yuan worth of treasury bonds in the nine-year period between the first issue in 1981 and 1989. This number represents approximately 75 percent of the total value of debentures issued by the state during this period. The massive amount of capital raised through the issue of treasury bonds has played a decisive role in China's economic construction.

At the same time, certain glitches in our system and our work have made the treasury bond a big question mark in the minds of the people.

The Treasury Bond—"Passive Funds" With a Poor Reputation

We might point out that the treasury bond is the most risk-free of all negotiable securities, and the yearly interest rate of generally over 15 percent greatly exceeds the interest rates offered by various time deposits and other debentures. Thus, the treasury bond is fully capable of becoming an extremely attractive security. However, a few years ago a large number of housewives skilled at calculations surreptitiously gathered up their treasury bonds, headed for the marketplace, and traded them for such daily commodities as eggs and needle and thread. And in recent years, whenever one has looked, there have been numerous people selling their treasury bonds to "official profiteers" at low prices.

It used to be that the citizen purchased treasury bonds as an investment in national construction. And, the high return in interest was a kind of compensation in value paid by the state to the investor. Why is it that now many investors actually look down their noses at this compensation? Could it be that bondholders now have less financial awareness?

According to one analyst in Guangdong financial circles, the following points are relevant in explaining why the people are unwilling to purchase or invest in treasury bonds:

1. The term of our treasury bond is too long. In other nations, treasury bond terms generally do not exceed one

year. But in China, the earliest period for discounted redemption is three years, and the longest bond is actually 10 years.

2. Our treasury bonds cannot be converted into cash at will.

Although we have practiced discounting since 1985 when the regulations went into effect, there are not many places where one can go to cash a bond and the work involved in doing so is considerable. Thus, it has been difficult to resolve the problem wherein it is easy to buy a bond but hard to cash it. Since 1988 the state has permitted the transfer of treasury bonds. However, the state has also stipulated that transfers may only take place within state-specified markets. In such a large province as Guangdong, there are only a few dozen negotiable security exchanges one can go to in Guangzhou and Shenzhen. Who among the ordinary folk is going to make a special trip to Guangzhou just to cash in a treasury bond worth less than 100 yuan?

3. The rigidity in apportionment that actually exists when the bonds are issued is something that easily irks the people, and this in turn hurts the reputation of the treasury bond.

In the minds of many people, the treasury bond has become an unattractive "passive fund."

What Can We Learn From the Sudden Riches of the "Official Profiteers"?

Early on, concerned departments of the state issued repeated injunctions prohibiting the private speculation in treasury bonds. However, in recent years we have heard one tale after another of people in various places making a killing through sales of treasury bonds.

In Guangzhou, one person made 4 million yuan in one year by reselling treasury bonds at a profit.

What can we learn from the sudden riches being made by "official profiteers"?

Our policies themselves are overly remiss. To date, the market redemption quotes for treasury bonds throughout the country have fluctuated excessively along with the market, and macroeconomic decisionmaking departments have done much less than they should in the areas of unified leadership and administrative intervention with respect to the treasury bond discount transfer markets. Currently in Guangzhou there are nearly 20 exchange markets for negotiable securities. Although every exchange has notices plastered up informing the people "Regarding the Criminal Sanctions That Pertain to Units or Individuals That Speculate in Treasury Bonds" and concerning the "Joint Proclamation of the Treasury Department of the State Bureau of Industrial and Commercial Administrative Management," still, nearly every exchange has a black market for treasury bonds right outside its gates.

What the "official profiteers" in treasury bonds are in fact doing is to pick up the "scraps" left behind by the state financial departments. They are filling up a "deficiency" of the state financial departments. In past years the issue of treasury bonds has always been done by appointment, with the result that town and village residents alike all hold bonds, but that no one person holds very many. Financial departments have no authority to cash bonds, and so, notes and bonds dealers appear out of nowhere and wander around through streets and alleys buying up treasury bonds for their own profit. In the end, these profits are considerable.

The fact that "official profiteers" can suddenly become rich clearly shows that the citizens of our country have a dim financial awareness. Among the persons we know, some of whom are educated quite well, there are none who regard treasury bonds as "capital that will create capital." Thus, they put their treasury bonds in any old place that is convenient, and if a dealer comes around who is willing to buy them, they will at times sell their bonds even if the dealer offers a ridiculously low price.

The huge profits of the "official profiteers" also reflects the fact that our citizens expect prices to be quite high and are not willing to hang on to treasury bonds for a long time.

China's treasury bonds are like a neglected baby that was born premature. From the day of birth, the sick cries we hear serve as a reminder of the things we forgot to do and the things we should do to remedy the situation.

Dig the ditch first, then fill it with water. It is hoped that all comrades engaged in economic work can bear this lesson in mind.

Lost Capital

Not long ago, a team of Japanese financial experts visited several large cities in China. After witnessing our citizens selling their treasury bonds, the Japanese indicated that they felt the situation was extremely complex. They said that in other countries this sort of frenzy would only occur when the people are lining up to buy treasury bonds. Why are the Chinese people willing to give up their high-interest treasury bonds at low prices?

Our treasury bonds currently face a reputation crisis.

Some people call the treasury bond a "hot potato" that should be tossed to the next man if possible. Others take full advantage of this attitude to make big money. Thus, in the frenzied selling of treasury bonds where some are willing to suffer a loss and others are willing to accommodate them, the reputation of the treasury bond goes further and further into decline.

As one specialist in the finance department of Jinan University takes pains to tell us, the key to dealing with this problem lies in realizing that the basic condition and most effective means for attracting capital is for a

negotiable security to have a good reputation. The reputation of the treasury bond is its greatest asset, and we should nurture it!

Can We Learn Anything From Other Countries?

In the United States, Japan, West Germany, and many other developed countries, the treasury bond enjoys the highest reputation among negotiable securities.

How is it that they succeeded?

Treasury bond issues follow the market. In developed countries, treasury bond issues have absolutely no problems with rigid or covert apportionment. And, because the people have a fairly keen sense of financial awareness, they are usually eager to subscribe to treasury bonds.

Generally, treasury bonds abroad have a term of one year. And in the United States, interest on the bonds accumulates incrementally according to scheduled periods, and the citizens who subscribe to bonds may get in hand the interest that has accumulated after half a year. In this rapidly changing modern society, a short term itself is highly attractive to many investors.

The fact that treasury bonds can be easily cashed in is another important reason why other countries have had so much success with their treasury bonds. We understand that in many countries today treasury bond redemption is computerized. When the time comes to redeem the bond, the financial department can look into the computer, find out how much principal and interest should be paid to the bondholder, and then transfer the funds straight into the bondholder's bank account. This cuts out numerous intervening steps and unnecessary inconveniences.

In other countries, there are well-developed secondary securities markets with many skilled securities brokers. Treasury bonds can be converted to cash at any time, and the buyers rarely have regrets.

Man's strong point is to be found in his weak point.

One specialist in a Guangdong financial department feels that we have to make three changes in the way we issue and redeem treasury bonds:

1. Go from administrative issuance to economic issuance. When bonds are issued, we should follow the principle of voluntary participation and mutual benefit between the borrowing and lending parties, and we should allow the debtor-creditor relationship to form in accordance with the law of value. Also, the price of the treasury bonds should be determined based on the supply and demand of funds. A workable method might be to keep one's eye trained on the market and make financial organizations the sole agent for bonds sales. Also, open wide the channels of bond issuance and use a bidding system to determine the price and quantities of the issue.

2. Change from limitations on bond flow to a system of free transference. Instead of having the bonds that people hold in their hands a kind of long-term debt, make them into a "current debt" that can be redeemed at any time in the market. To do this, we must build on the bond exchanges that have already been established by the financial organizations and increase the networks, get more bond brokers, and setup and gradually perfect the secondary fund markets so that treasury bonds go from being "passive funds" to being "active funds."

3. Move from the long term bond to a fairly short "investment term" in order to attract more subscribers for treasury bonds.

SMALL-SCALE ENTERPRISES

Township Enterprise Structure Improved in Zhejiang

90CE0432A Beijing ZHONGGUO XIANGZHENQIYE
BAO in Chinese 23 Jul 90 p 1

[Article by Lin Ding Gen (2651 1353 2704) and Li Xia (2621 0204): "Structure of Township Enterprises in Zhejiang Is Improved After Three Years of Rectification and Improvement"]

[Text] Since improvement and rectification, the overheated development of Zhejiang's township enterprises which are engaged in processing industries has been curbed, the product structure has been successfully adjusted, and the organizational structure of enterprises has improved.

Presently, 67.7 percent of township enterprises in Zhejiang are involved in light industry and 32.3 percent are involved in heavy industry. If categorized according to industries, then 30.8 percent are involved in the textile industry, 24.9 percent in the engineering and electronics industry, 10.3 percent in the chemical industry, 8.4 percent in the building materials industry, 5.2 percent in the food industry, 4.1 percent in the tailoring industry, and 16.3 percent are involved in other industries. Looking at the rational allocation and composition of industry from the state's macroeconomic viewpoint, the percentage of Zhejiang's township enterprises involved in processing industries seems higher than it should be. However, this structure conforms with reality to a large extent when one considers Zhejiang's lack of raw materials and its rather good textile base. In the process of adjusting and improving the industrial structure, the following approaches were adopted:

Adjustments to the existing production capacity and the allocation of increased production capacity were handled differently. The vice mayor in charge of industry in Cixi City, Zhejiang Province, believes that, since stability is currently a top priority, adjustments to existing production capacity should focus on improving, transforming, and increasing capacity. They tried to close down as few enterprises as possible during the adjustment in order to

avoid unemployment and debt problems, which could have affected social and economic stability in the countryside. Meanwhile, they maintained a certain degree of flexibility in the adjustment process, handled the relationship between adjustment and development properly, and steadily adjusted the industrial structure. Approval for increasing production capacity was granted in strict accordance with the state's industrial policy, so that increases in production capacity would be in keeping with that policy. In recent years, Cixi County has set up a strict examination and approval system for new projects. Projects with investments of more than 200,000 yuan must be scientifically studied by relevant organizations led by concerned authorities. Approval will not be given unless the feasibility of the project is proved. Over the past four years, Cixi City has started 323 new projects involving over 200,000 yuan each. In general, these projects have proved quite successful.

The product structure was adjusted based upon the state's industrial policy, market orientation, and the development of new products. During the adjustment process, township enterprises in Zhejiang earnestly relied on advancements in science and technology. They paid special attention to developing new products which would enhance the adjustment of the product structure. In 1989 township enterprises had 180 provincial-level projects involved in developing new products; it was estimated that, after they began production, these projects would increase the output value by 680 million yuan. There were 1,600 programs at the county level or higher involved in developing new products; it was estimated that they would increase the output value by 15 billion yuan after they began operations. The Keqiao District in Shaoxing County has a high concentration of textile industries which produce primarily chemical fibers. They produce large quantities of chemical fibers, yet their products lack variety. In order to get out of this plight, the township enterprises involved in the textile industry tried to develop new products and thus surmount the current problems of a slack textile market and unsalable goods. Sales improved and economic benefits rose steadily, which was in sharp contrast with the situation of state-owned enterprises. In the past two years, the Number Two Textile Mill of Shaoxing County has successively developed more than 20 new products, three of which are of provincial standard. The factory directors feel that, in the intensely competitive market, they must have one product in production, one on the drawing board, and still another in the back of their minds. Only by constantly making adjustments and creating new ideas could they achieve an unbeatable position.

They emphasized the strong points and played down the weak points, utilized their strengths, and accelerated the improvement of the region's industrial structure. Zhejiang Province is poor in mineral resources and its energy and raw material industries are backward. It does have its strengths, however: it has a relatively high level of production technology and a fairly good foundation for

foreign-exchange earning exports. During the adjustment process, township enterprises in each region maximized their strengths and minimized their weaknesses, focused upon key products and their related industries, and formulated a series of superior developed industries. All this in turn promoted the rational flow of production elements, and enhanced the regional economy. For instance, Cixi City established superior mini-bearing and plastic parts industries by drawing on its technological strengths in the plastic processing, knitwear, and engineering and electronics industries, and turned out a series of products which were popular among both domestic and foreign customers. Tongxiang County has a silkworm cocoon production base, a fairly advanced textile industry, and has traditionally been strong in silk reeling and silk fabric production. It is located between Shanghai and Hangzhou, and is also a cooperative base for building materials. During the adjustment drive, the county promoted policies to "upgrade the textile industry, stabilize the building materials industry, maintain the leather industry, develop the engineering industry, and open up the electronics industry" which suited local conditions, and thus it greatly improved its industrial structure.

An evaluation system using technological and economic standards was established in conjunction with improving the industrial structure. Improvements in the industrial structure have to be manifested in the increased economic efficiency of enterprises. During the adjustment period, some counties (cities) in Zhejiang Province established different standards for evaluating technologies, material consumption, quality, and efficiency according to their different industries and products. This forced enterprises to carry out management-by-objective and establish a mechanism for self-discipline and self-improvement, and helped them to upgrade and improve their quality. At the same time, by carrying out evaluations and utilizing market competition methods, enterprises whose quality was low, material consumption was high, and whose products were not up to standard were eliminated. For instance, the silk, building materials, and other industries in Zhejiang Province established all kinds of technological and economic standards, and regularly evaluated enterprises. This was effective in helping to raise the economic efficiency of these enterprises and further improve their technological and economic structures.

FOREIGN TRADE, INVESTMENT

Soviet Trade Official Views Sino-Soviet Trends

90CM0448A Hong Kong KUANG CHIAO CHING
[WIDE ANGLE] in Chinese No 214, 16 Jul 90 pp 46-47

[Article by Wang Ming (3076 6900), under the rubric "Prospects for Developing Sino-Soviet Trade": "Sino-Soviet Frontier Trade Targets Soviet Domestic Development—An Interview With Aleksandr Kachanov, First Deputy Minister of the Soviet Ministry of Foreign Economic Relations"]

[Text] The Soviet Union Is Optimistic About Prospects for Trade With China

Aleksandr Kachanov, the Soviet Union's first deputy minister of foreign economic relations, has expressed to me satisfaction with the status of Sino-Soviet trade in recent years, and complete confidence in prospects for future cooperation. Kachanov, in Harbin to take part in the discussions on Chinese economic relations and trade with the Soviet Union and Eastern European nations, granted me an exclusive interview.

Sino-Soviet Local Trade Is Growing

During his stay at the Pingcun Guest House in Harbin, Heilongjiang, Kachanov, a man of great stature, told me that China and the Soviet Union have a long history of trade cooperation, and the bilateral cooperation that existed during the 1950's is particularly memorable. In the past 10 years, not only has economic cooperation grown between our two governments, but local trade activities have also burgeoned. Now local trade between Heilongjiang and the Soviet Union accounts for 70 to 80 percent of all local trade between our two nations. A large proportion of local trade is based upon Heilongjiang's natural resources, and the trade is mutually beneficial.

Expand Labor and Service Exports to the Soviet Union

Deputy Minister Kachanov feels that in the past few years trade dealings between our two nations have grown from the original trade in commodities to diverse types of economic and technical cooperation and project contracting. With assistance from China, the Soviet Union has initiated many enterprises, and the Soviets have also aided China in organizing some economic entities. This is beneficial to both parties. Kachanov appraised Soviet-based Chinese service personnel very highly. He said that Chinese workers and service personnel not only do qualitatively flawless work, they also have a good mental attitude. Central and local Soviet governments alike are more than willing to expand this kind of cooperation with China.

We Will Switch From Commodities to Spot Exchange

Kachanov told me that the Soviet Government has already decided to switch, beginning 1 January 1991, from the commodities form of trade to spot exchange with the government of China. Prices will be set based on international market pricing. The Chinese Government has already agreed in principle and will reach an agreement on this point soon. This may have the effect of promoting trade development between our two countries. However, trade in commodities will continue to characterize frontier trade for the time being.

Control Over Export Commodity Licencing Has Been Toughened

The Soviet Union has recently toughened its system for managing export commodity licencing, and some people

are concerned that this will have an impact on Sino-Soviet trade. Kachanov says that issuing permits for commodity exporting is a measure utilized by every nation. He says the reason the Soviet Union has recently reinforced this area is that domestic economic problems have cropped up. These measures are temporary and narrow in scope, applying primarily to raw materials, and generally will not affect Sino-Soviet frontier trade. The two sides can expand the scale of trade in other commodities. The Soviet Government is working hard to resolve the Chinese surplus that appeared in Sino-Soviet trade in 1989.

Sino-Soviet Trade Targets Domestic Soviet Development

In discussing the development of Sino-Soviet trade, Kachanov asserted very confidently that there is a great deal of potential for economic and trade cooperation between China and the Soviet Union. In the future the Soviet Union will focus on expanding commodity imports from China, and it will simultaneously increase economic and trade cooperation in all areas. The Soviet Union is particularly interested in establishing joint enterprises, technological exchanges, and labor and service cooperation. Right now there are six open ports between China and the Soviet Union, and in the near future we will open four new dry land ports to increase our capacity to handle the exchange of commodities.

There were many Soviet participants in the June 1990 Harbin trade talks. In addition to representatives of border port cities, there were also representatives from Moscow and from the Russian, Ukrainian, and Moldavian Republics. Deputy Minister Kachanov was pleased with this participation, saying it indicates that Sino-Soviet frontier trade targets domestic development in the Soviet Union, and that prospects are wide open.

Kachanov said that the Soviet Union is currently involved in economic reform, and is preparing to establish several special economic zones in order to attract foreign capital and technology. In the future it may also establish Siberian and Far Eastern economic zones. The Soviet Union is now eagerly studying foreign experiences, including Chinese experience, in setting up special economic zones. Kachanov feels that exhibits at the trade talks were many and varied, demonstrating recent Chinese achievements in economic development.

Impact of International Market Prices Discussed

90CE0331A Chongqing GAIGE [REFORM] in Chinese
No 3, 20 May 90 pp 91-94

[Article by Zhou Xiaochuan (0719 1420 1557), assistant minister of foreign economic relations and trade: "Export-Oriented Development and the Impact of International Market Prices"]

[Text] China has adopted the general principle of opening up to the outside world and has decided to carry out a relatively open export-oriented development

strategy. Coastal areas, in particular, have to demonstrate such a strategic change. As we face such a profound change, we should notice the benefits of further opening up, as well as the possible problems it might bring and the prices we have to pay in the course of changing. We should be prepared to pay these prices and solve upcoming problems. A more important task is to correctly and rationally analyze and understand a series of problems arising in the course of change. A major economic problem is that the development of the policy to open up to the outside world will bring prices in the international market into the domestic market and cause a great impact on the old economic mechanism and old concepts of value. Such an impact can have its good side, and can promote domestic reforms. But another side of it is also beyond people's current ability to understand or accept ideologically, or it is viewed as something to be resisted. This article recognizes that there are many controversial issues worth discussing with regard to handling problems caused by the impact of international market prices which arise in the course of changing a development strategy. Understanding of these issues greatly affects changes in strategy and the progress of deepening reform.

Traditional Stalin-style theory of centrally-planned economies is strongly critical of international market prices and their constant fluctuation. The theory recognizes that international market prices are controlled mainly by monopolistic, capitalist forces and that the irregular fluctuation of international market prices is an expression of economic anarchy and cyclical crises. Thus the socialist economy should resist the influence of international market prices on domestic prices and adopt isolating measures to stop or ease the impact of fluctuating international market prices on domestic prices. But the traditional central planning economic theory does not provide a functional mechanism that can maintain price rationality. It does not even have a clear, convincing concept of or standards for a rational price system. The result of actual operation is merely the continuation of the status quo: a certain price system (left over from the past, or hastily drawn up by ourselves) which is set and remains unchanged for years or even decades. The result of this practice shows that such a price system is highly distorted and extremely irrational. In comparison, the international market price system is gradually being considered less distorted, and some consider it a system that can be used as reference for readjusting or reforming the socialist price system, although it also has some unsatisfactory aspects. During a certain transitional period of reform, economists of socialist reform may come to the following understanding: Through reform, we should move the relative price structure of the domestic market closer to that of the international market. However, there is no need to follow every step of the international market price. We still need to adopt some kind of isolating measures to stop the conduction of international market price fluctuations. Currently

some economic workers in China do support the above way of thinking, although this may be a transitional view in a transitional period.

We should adopt necessary measures to isolate some "bad" elements and "bad" fluctuations in international market prices, instead of blindly following them. This sounds good in principle, but lacks details and instructions for implementation. To implement it, we must answer the following questions: What limits and standards shall we use to distinguish "good" international prices and fluctuations from "bad" ones? What kind of organizations and people have the quality and ability to make such judgments and to exercise management? What kind of information base and analytical measures are needed to guarantee the judgments and management are correct? None of these questions have satisfactory answers. In actual economic operations, we often refuse to let commodity prices follow international market prices for one reason or another, and thus our domestic pricing system is still fairly highly distorted. As far as unregulated or semi-regulated domestic prices are concerned, when fluctuations in international market prices cause a noticeable impact, it is possible to control domestic prices again or put a rigid cap on domestic prices due to the unclear limits mentioned above. At the same time, we may place some restrictions on the previously unrestricted management of such commodities. Since domestic enterprises have been told not to blindly let international market prices affect them, it is inevitable that they will have fewer opportunities to participate in the international division of labor and that they will participate to a lesser extent.

In the past 20 years, international views on the theoretical development of an export-oriented economy and development strategy have differed. Many think that the relative price structure of the domestic market should approach that of the international market. They also think that adopting the policy of open operations and vigorously participating in the international division of labor can best achieve the optimized distribution of domestic economic resources and develop various hidden relative advantages. Experience also shows that, because the influence of the international market price is complex and uncertain, it is very easy for administrative officials to make mistakes when deciding to adopt an isolation policy. They often pay a huge price. One way to deal with changes in the international market price structure is to try to increase enterprises' ability to readjust flexibly and to enhance their mechanism for taking risks. Of course, this will result in demands for changes in the system.

This article is trying to make a few analytical points on this issue. It points out that there will only be a positive effect if we are absolutely sure about our judgment and can adopt a timely and appropriate policy to isolate us from a few international prices or fluctuations which we consider as harmful to our national economy. It places very high demands on the policymaking level of concerned policymaking organizations and people, and on

their informational support system. It must be done with great caution. Otherwise, because of inaccurate analyses, insufficient information, undue theoretical stress, short-sightedness, and rash decisions, the results could often be negative and contrary to our wishes.

1. If the import and export volumes of certain commodities from our country account for an insignificant portion of the international market and cannot influence international market prices; if we are sure that price fluctuations of such commodities in the international market are temporary and not an inevitable trend; and if it is impossible for enterprises and consumers to effectively readjust the production and consumption structures within a short period, then we may have a reason to formulate and enforce a short-term isolation policy. This may include controlling the price or quantities of imports and exports of these commodities and adopting certain examination, approval, and coordination measures in order to prevent undesirable fluctuations in international market prices from affecting basically rational domestic prices through import and export trade. However, we should pay adequate attention to a series of prerequisites.

A. We need a lot of information to make a definite estimate on the trend of changes in the international market prices of a given commodity and on the flexibility (and time lag) of domestic production and consumption. However, administrative authorities usually have very poor means of informational support. This is especially true when they attempt to interfere too much or too closely. The complexity of this issue also lies in the fact that many commodities have different degrees of substitutability or production inputs. Decisions involving one commodity may also involve decisions related to many other commodities. In socialist and some developing countries, administrative officials often tend to underestimate enterprises' and consumers' flexibility in adjusting and overestimate the rigidity of production and consumption structures. As a result, they will make erroneous judgments. The analysis of international experience will often reveal this phenomenon.

B. There are often problems with the analytical means and tools which concerned authorities use to make judgments and with the theoretical base supporting such analyses. If there are problems with the theoretical base, hypotheses, or methods which we use to analyze the information, even though we had enough information, we still would be unable to reach a correct conclusion. For instance, can we use historical data (including historical data collected before and during the continuous process of reform) to correctly predict enterprise and consumer behavior at a given point in the course of economic structural reform in socialist countries? This has always been a controversial issue. Experience shows that errors or questions in this regard are very common.

C. International market situation is often uncertain. At most it can be described in terms of probability, but not in fixed terms. The situation in the domestic market can

also be uncertain, but this is generally to a lesser degree than in international market. Uncertainty causes the demand for information to increase substantially and makes analysis much more complicated. Some issues which can be analyzed under fixed conditions cannot be analyzed under uncertain conditions using present techniques. In this circumstance, even if we manage to reach a conclusion, we can only tell what the probability of accuracy of this conclusion is. If the probability of accuracy of adopting a certain policy is 50 percent, the whole process of gathering information, analyzing it, and developing responses will be meaningless.

D. We generally assume that administrative authorities are devoted to serving the overall interest of the country and that their skill level and professional level are acceptable. International and practical experience, however, tells us to take care. Are the staff members of the departments concerned competent? Do they clearly understand what the national interests are? Will they use their analyzing and policy-making functions to look after certain individuals or interest groups to varying degrees? These questions are not completely clear.

To sum up, theoretically it is possible to judge and formulate an isolating policy to guard against the impact of international market prices. But in practice the probability of error is very great, especially when authorities attempt to interfere too much and too closely in a large number of commodities.

2. If the domestic production or consumption structures can react in a timely and appropriate manner when prices of certain commodities fluctuate on the international market, the effect on domestic prices will still affect the distribution of resources, even if this only occurs very briefly. Of course, there are some cost and risks involved in readjusting the production structure. In other words, when an enterprise readjusts the direction or mix of products in accordance with changes in international market prices, then, when prices return to earlier levels, enterprises will have to readjust again or return to the way they were before. Yet many enterprises are willing to take certain risks and pay a certain price, probably because they think that the profits are greater than the costs. For instance, western-style suits were suddenly in great demand in the early 1980's. We had reason to believe that it was just a fad and would be soon over. Yet some manufacturers in Hong Kong and Taiwan reacted quickly. They increased equipment and added more shifts, readjusted and rearranged their resource distribution, and substantially increased the production and sales of materials for western-style suits. In so doing, they earned a great deal of money, much more than they had to pay. If this had happened to enterprises in China, authorities probably would have warned enterprises not to be fooled by fluctuating prices in the international market and not to "start projects blindly."

3. We will pay a huge price if we resist the conduction of international market price in order to maintain a stable

domestic pricing system and reduce the rate of increase in the general level of market prices, even if we pay it only temporarily. More often than not, we fail to fully analyze such a cost, or we do not analyze it at all. The basic goal in stabilizing domestic prices should be to benefit the people's welfare (sometimes it is probably for the stability of political organizations). However, failing to respond to changes in international market prices will cost us the opportunity to optimize distribution of domestic resources. Or we should say that it will actually cause the efficiency of resource distribution to decline, and thus undermine the people's welfare. What is the final influence of these two practices on the people's welfare? We have not seen sufficient analysis on this issue. For instance, the price of aluminum on the international market increased several times over during a brief period. In order to protect the consumption and low prices of aluminum containers, China continued to maintain prices for some aluminum tablets and materials, isolating them from the impact of foreign prices. In reality, the people's demand for aluminum products is very flexible and the products have many substitutes (such as enamel, stainless steel, and plastic products). If we can reflect such flexibility and substitutability in our pricing mechanism and use the surplus aluminum for exports, the people could probably benefit more.

4. If certain commodities of a country occupy a large share of the international or local market and can affect prices in that market, the country should be able to gain greater profits by controlling the amount and price of these commodities when there are drastic changes in demand and supply relationship instead of allowing the domestic market to follow such changes. This seems rational in principle, but it is very difficult to maximize profits by locating the optimal point of quantity and price controls. The actual practice usually is to maintain the original domestic price of the commodity, whereas exports or imports of the commodity are usually very subjectively set. Using correct hypotheses, we should carefully calculate whether following this practice can bring more profits than following the practice of allowing international market prices to affect the domestic market. The conclusion of such an analysis is often different than one would intuitively. Because of this, we need to make a prudent judgment. Another problem is that, if a monopoly party does not have a dominant share of or total control over the international or local market for a commodity, then when it chooses to optimize profits, other smaller and potential competitors will take the opportunity to expand their market shares. This probably will not cause a serious threat over a short period, but it is a factor worth considering over an intermediate or longer period.

5. Usually the difficulty is in correctly judging the nature of the change in international market prices. Is it a short-term fluctuation or is it going to last for several years? Is it a fluctuation or is it a long-term trend of change? When an authority correctly decides that it is a short-term, negative fluctuation, it may benefit by not

making any foolish moves within a short period. However, if the authority is wrong, it may suffer losses that are several times greater and that last much longer. For instance, when the first oil crisis occurred, some countries thought the increase in oil prices was short-term and man-made, so they did not let domestic oil prices change accordingly, and thus suffered huge losses. This shows that, if we are unsure about our judgment, we would be better off recognizing reality and letting prices fluctuate accordingly. Judging from observations of the behavior of authorities and officials, if the change in international market prices is not the short-term fluctuation that they had previously estimated, it would not be easy for them to change their judgment. This is because they often hope to prove their previous judgment correct in an upcoming period, and thus put off changing. The probability of promptly correcting a judgment is usually not very high. As far as the domestic pricing mechanism is concerned, this means that, when we decide to keep our prices rigid temporarily in order to avoid interference from the international market, more often than not these prices will stay rigid for a very long period, and thus cause long-term harm to the efficiency of resource distribution.

Through the preliminary analyses above, I tried to explain that the traditional theory of Stalin-style, planned prices provides a principle that appears rational but which is difficult to implement when handling the relationship between changes in domestic and international market prices. The analysis and comparisons of experience also shows that authorities often make many unsure decisions with regard to the nature of changes in international market prices, domestic comparative advantage, the ability of domestic manufacturers and consumers to make flexible adjustments, and the optimization of resource distribution. The government should consider not engaging in such excessive and detailed judgments and interference, and concentrate their energies on making relatively reliable judgments and guidance on general trends.

The occurrence of domestic inflation is always related directly to poor control over aggregate demand, which eventually manifests itself as an inappropriate monetary policy. Freezing domestic prices and resisting the affect of international market prices on the domestic market not only cannot permanently solve the problem of inflationary pressures, but it also will cause the efficiency of resource distribution to decline. Even if it is a temporary measure, we still need to analyze it calmly and weigh it carefully.

During the transitional period of economic structural reform, the concepts, theories, and biases derived from the old system are likely to make people excessively critical of international market prices. Thus they will unduly resist changes in international market prices and their conduction into and impact on the domestic market. This will result in biased policymaking and affect the progress of opening up and participating in the international division of labor. At the same time, judging

from the experiences of the development stage of reforming the foreign trade system and the policy of opening up to the outside, these deviations are a typical way of thinking in the early stages of reform and opening up. They will change as reform and opening up develops further. Conscientious economic analysis and comparison of the international experience will facilitate such a change.

Strategy Outlined To Expand Light Industry Exports

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[Article by Li Dingji (2621 1353 1015): "Export Strategy Options for Light Industrial Products Under Current Conditions]

[Excerpt] [passage omitted] B. The Strategy of Expanding China's Exports of Light Industrial Products

1. China's Light Industrial Exports: Current Situation and Problems

China's foreign trade has made long strides since the PRC was founded. Following the Third Plenary Session of the 11th CPC Central Committee, in particular, China has introduced reform and the open policy and energetically developed an export-oriented economy, which has boosted exports. According to statistics, in the 10 years between 1979 and 1988, China's exports totaled \$259.2 billion, a 2.92-fold increase over the total for the 29 years immediately before liberation. In old China, the bulk of light industrial products were imported. Not only has that situation been brought to an end, but China itself has become an exporter of light industrial products. In 1988, light industrial products accounted for 50.4 percent of the nation's total exports, up from 26.9 percent in 1953. China's light industrial products are now exported to over 180 nations and regions in the world.

However, we should be clear-headed enough to see that first, Chinese exports constitute a mere 1.7 percent of the world's total, even less in the case of light industrial exports. Second, of China's export mix, the shares of agricultural, light industrial, and heavy industrial products have changed and improved, but only marginally. The share of textile and light industrial products, for instance, which dominate the exports of developing nations, seems to have remained more or less unchanged in the past 20 years. Third, the markets for China's light industrial exports are at the low end of the scale. Most commodities are exported to Africa, the Middle East, Southeast Asia, Hong Kong and Macao, and a little finds its way into upscale department stores and supermarkets in developed nations. Fourth, the commodities belong to the low end of the market. In style, design, packaging, structure, function, and quality, they have changed little over the years. Foreign businessmen often complain about the "same old stuff," "conservative packaging," and "poor quality."

Many products are out of step with market trends and some are tottering on the brink of elimination. Fifth, the returns on exports are low. The difficulty we are facing is two-fold. On the one hand, as the light industrial product mix on the international market trades up, those products that are technology-intensive have a rising added value and take up a larger market share. Light industrial exports, which are mostly labor-intensive, will be replaced by newer products and squeezed out of the market. On the other hand, China's advantage—low cost labor—faces increasing competition from more and more developing nations and will be eroded. It is a priority, therefore, to overhaul China's light industrial product mix to ensure the survival and growth of Chinese exports.

2. Grasp the Opportunity To Establish a Light Industrial Exports Adjustment Policy

At present we are facing all sorts of difficulties, including economic belt-tightening at home and trade protectionism abroad. Yet both the domestic and international economic situations present us with a golden opportunity to adjust the light industrial product mix. This is why. To begin with, the new technological revolution now sweeping the entire world gives us a good opportunity to adjust our light industrial export mix. The new technological revolution has helped overhaul the industrial structures and product mixes of both developed and developing nations, expediting their development in the direction of high added value. A notable "law" has become into being in international law: When a nation is quick to adjust its industrial structure and export mix, its commodities will be more technology-intensive and have a higher added value, its exports will have a high foreign-exchange earning rate and be more profitable. On the other hand, when commodities are low on technology and high on labor and raw materials, then their added value will be lower, as will their foreign-exchange earnings rate and profits. In fact, they may even lose money.

China's light industrial products are labor-intensive and raw-materials-intensive but low on technology and old fashioned in style and design. Few are in tune with the world market. In recent years, in particular, the rising costs of Chinese labor, the soaring prices of raw materials and supplementary materials, and our dependency on imports have caused Chinese light industrial exports to become less profitable and even downright unprofitable. Accordingly, we should establish a light industrial export strategy as follows: seize the opportunity presented by the adjustment of the global industrial structure and make export orientation the goal of our drive to adjust and upgrade the present light industrial structure. The idea is to make the products technology-intensive with high added value, which will be consistent with the international economic structuring and the division of labor in international trade and will promote exports and increase profitability. As part of the shift in the international economy, for instance, Asia's "four little dragons" are getting out of the textile and light industrial markets

in part and are planning to sell off their industries. Seizing this opportunity, we should take the initiative to select the best for import and then improve upon it and use it as an engine for adjusting and upgrading the domestic industrial structure. The idea is to make the light industrial export mix "upscale, high-tech, efficient and with a high added value" systematically in accordance with a plan.

Second, make full use of the excellent opportunity presented by the current drive within China to improve the economic climate and rectify the economic order. The adjustment of the light industrial commodity mix depends on the adjustment of the industrial structure. How should it be adjusted and upgraded? How are we to achieve the right export orientation? How is high added value to be attained? These issues urgently need to be addressed today as we improve the economic climate and rectify the economic order. Only after we establish and perfect economic operating mechanisms that combine economic planning with market regulation can we ensure a correct course for the adjustment of the light industrial structure; overcome problems encountered earlier such as economic overheating, inflation, and thoughtless importation; eliminate such weaknesses as overall imbalance in the economy, structural irrationalities, low-level of effective supply, and low foreign exchange earning rate; and reliably guarantee the adjustment of the light industrial export mix.

C. Implementing the Strategy for Structural Adjustment and Upgrading

1. Implementing policies and measures for optimizing the industrial and commodity structures.

In China, light industry has grown to a considerable scale and is fairly diversified, more or less sufficient to meet domestic demand. As an exporter of light industrial products, however, China remains at a very low level despite the wide variety and large quantity of its exports. At present the light industrial system remains at a low level in terms of product variety and style. Many of the products have remained unchanged for decades. Their added value is low. As far as technology is concerned, simple processing industries are widespread, turning out low-tech products. When it comes to the R&D of new products, the enterprises do not have the capability to absorb and assimilate advanced technology and achievements. Nor is there an environment or consciousness that encourages innovation. Many enterprises are content to rely on a handful of products. The structural and regional distribution of light industrial enterprises is influenced by the desire of every locality, large and small, to have a full lineup of industries. The result is duplication in terms of both geographical distribution and the kind of products being turned out. As each locality has its own light industrial setup, it is difficult to develop a national light industry with its own characteristics and strengths. In recent years, moreover, a herd instinct seems to have taken hold. "Once a product becomes popular, everybody jumps on the bandwagon."

Accordingly, we should increase state planned regulation and control; guide and help the adjustment and upgrading of light industry by implementing policies and measures aimed at optimizing light industry and its commodity mix, and make China's light industrial export mix more technology-intensive with a high added value.

To begin with, we should transform and upgrade the structures in stages in light of the conditions in China. With a population exceeding 1.1 billion, China has a huge domestic light industrial market, which is far behind its counterparts in developed nations for consumption level and pattern. This means that there are marked differences between marketing a product at home and marketing it overseas. Accordingly, it is imperative that we draw up a comprehensive industrial structural adjustment plan that is based on the domestic market but will also help our products compete internationally and will gradually increase our exports. Specifically, it means combining the selective development of existing enterprises and commodities with import substitution and exportation. As far as commodities with a strong domestic demand are concerned, we should try to expand production and gradually improve their quality. We should try to improve the existing industrial structure and lay the groundwork for expanding exports by importing key parts and components instead of whole plants, technology instead of commodities. Moreover, we should select and nurture certain industries with export potential and capability by giving them preferential treatment on a policy level in order to speed up their development. Their added value should be increased steadily and the market expanded step by step.

In the short run, China's labor costs are still an advantage that should be made full use of. We should energetically develop the production and export of such labor-intensive light industries as shoemaking, luggage, plastic and leather goods, and clothing in order to accumulate funds for industrial upgrading. In the long haul, however, we should pave the way for the shift to technology-intensive industries, expand upscale industries, and nurture such export-oriented light industries as electrical machinery, microelectronics, new high-tech and intellectual industries, thus expediting the upgrading and rationalization of the industrial structure. The state should take actions on the financial, tax, and credit fronts to ensure industrial rationalization.

Second, we should aid and support the adjustment of the export mix and industrial structure with preferential policies and economic administrative assistance. They include: 1) Structural preference, which means providing enterprises which undertake adjustment to make their products more upscale and more technology-intensive with a higher added value with the necessary industrial protection policies. 2) Preferring some regions and industries to others. The state should select certain light industries for special assistance according to the development levels and basic conditions of the different types of light industries in different regions as well as the

current state of their exports and prospects. Enterprise groups should be set up to take part in international competition and speed up the development of their respective industries. 3) Preference in export policies. Right now most export enterprises in light industry are so preoccupied with export tasks that they have little time for major adjustment. If this situation continues, China's long-term ability to export will be seriously undermined. We should issue reasonable export targets to enterprises engaged in the adjustment of the product mix and the development of high added value for light industrial commodities. This will help the development of foreign trade enterprises and the shift to an export-oriented economy.

2. The forms of industry-trade integration should be upgraded.

In the course of foreign trade reform, China's light industry and foreign trade light industrial enterprises have been cooperating with one another closely and contributed to the increase in light industrial exports. In recent years, especially, we have conducted many experiments in the forms and methods of industry-trade integration, gaining much experience as well as encountering many problems that are worth looking into. One of the more striking ones is the overlapping between so-called "industry going into foreign trade" and "foreign trade going into industry." Both foreign trade enterprises and industrial enterprises are expanding their turf. Besides securing sources of exports in the industrial sector using the traditional procurement method, foreign trade enterprises have begun entering into partnership with production enterprises or building their own production enterprises. Industrial production enterprises, for their part, have directly or indirectly been engaged in foreign trade using a variety of methods and through multiple channels. While this kind of industry-trade integration is good in that it brings to an end the traditional separation between the two and bridges the gap between production and marketing, it presents its own problems: everybody doing things his own way, blind duplication, price-slashing, and other harmful tendencies.

To make the adjustment of light industrial export mix a success, therefore, we cannot do without either foreign trade or industry. Only when the two—foreign trade and industry—truly achieve an optimal combination and reorganize their productive forces can they really bring out their strengths and minimize their weaknesses. In adjusting the industrial structure, we should seek to upgrade the forms of foreign trade-industry integration and deepen the substance of such integration. Light industrial production enterprises and foreign trade enterprises should integrate with each other closely using multiple methods and multiple channels, discarding the small-production idea that even though one is small, one must have a full lineup of industry. Instead, they should see that the optimization of industry as a whole is in their economic interests, each putting their own respective strengths to work and together doing a good job in

adjustment and upgrading. Industry and foreign trade can put together new export groups and joint groups by buying shares and investing in each other, by operating joint ventures, and by transferring property rights. Specifically, they can learn from foreign experience and expand the functions of the foreign trade sector to offer a comprehensive range of services including foreign trade, investment, import, commodity production, transportation, supply and marketing, banking and information. Comprehensive commercial firms or multinational companies centered on light industrial commodities should be set up on a trial basis in large cities. We can also put together a host of export-oriented enterprise groups spearheaded by light industrial export commodities and offering one-stop services from primary processing through multiple processing to export. In addition, the two sides can set up production enterprises or overseas enterprises through joint investment. Or they may together seek out advanced light industrial enterprises or firms overseas to set up joint ventures or contractual joint ventures which will help their effort to seek a foothold in the overseas market. They must adjust the light industrial export mix and industrial structure successfully from all angles and perspectives.

ECONOMIC ZONES

Development Options for SEZ Foreign Trade

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[Article by Du Qiang (2629 1730): "A Discussion of the Changing International Trade Scene and Development Strategies for China's Special Economic Zones"]

[Text] I. Contemporary International Trade—Basic Characteristics and Future Trends

A. Basic Characteristics of Contemporary International Trade

1. The percentage of international trade accounted for by commodity trade is falling, and the percentage of trade involving services and technology is rising rapidly.

One of the special characteristics of international trade in the post-war period has been the rapid development of trade in services and technology. There is now a 2:1 ratio worldwide between commodity trade as against trade in services and technology. It is worth noting that trade in services generally accompanies and is based upon trade in technology. For example, imports of turnkey projects and production and assembly lines are carried out in tandem with the award of construction projects and licensing of industrial property rights, the transfer of patented technology and specialized knowledge, exchange of complete plants and equipment, the rendering of engineering services, provision of technical consulting services, and training of technical personnel. Developed countries account for 85 percent of the

world's services trade, and most of this trade is in licensing, turnkey projects, financial and insurance services, and software programming, all of which are high level services. Trade in services in developing countries tends to involve such low-level services as construction projects and export of raw labor power.

2. Trade protectionism is rampant in international markets.

In the mid-1970's, trade protectionism made a comeback. By the 1980's, trade protectionism was growing worse by the day due to slow worldwide economic growth, a worsening balance of payments in various countries, and imbalanced development of international trade. This return of trade protectionism has been marked by two main characteristics. First, it is far-flung geographically, broad in scope, and virtually every country in the world is subject to its influence. Developed countries have reduced or completely eliminated trade concessions and generalized systems of preferences which they had offered to developing nations previously. Due to trade deficits, and in order to protect industry and reduce unemployment, developed nations have launched various sorts of trade wars. Developing nations, in order to expand exports, are engaged in a struggle over limited markets for primary products. At the same time, they have adopted protectionist policies to protect fledgling industries and domestic markets. Trade protectionism does not apply only to primary products and manufactured goods; it has also expanded into trade in services and high-tech products. The second characteristic marking this trade protectionism has been deepening government intervention. Out of national interest, every country has, in addition to adopting measures to encourage exports and limit imports, resorted more and more to restrictive quotas, "voluntary" export ceilings, and the signing of bilateral open market agreements in order to intervene in the import and export activities of their own countries.

3. Monopolistic competition has been further strengthened.

The two types of monopoly organizations, which have existed since World War II, have heightened monopolistic competition in international trade. One type is international cartels (i.e. cartels, syndicates, trusts, and concerns), and the other type is multinational corporations. The rapid development and international economic influence of multinational corporations have made them the primary monopolistic force in international trade. Internal trade within multinational corporations accounted for 22 percent of total world trade in 1966, and it had risen to roughly one-third by the mid-1980's. If we include trade between multinational corporations and other enterprises, then multinational corporations occupy a position of absolute monopoly in international trade. For example, Tate and Lyle Corporation controls 95 percent of all cane sugar imports in the

European Economic Community. Multinational corporations control about 95 percent of total output value in the world's automobile industry.

4. The commodity structure in international trade (finished industrial goods and primary products) is evolving toward more highly processed products with a higher value-added component. Trade in primary products will continue to shrink.

Development of science and technology and the rising level of consumption has led to: intensification and internationalization of the world industrial structure; a continual appearance of new, technology-intensive products; and a large increase in international trading of intermediate products as well as parts and components. Furthermore, trading of finished goods and primary products on the world market has become more weighted toward finished goods. According to statistics kept by the General Agreement on Tariffs and Trade [GATT], finished goods accounted for 49.6 percent of all world exports in 1960, and this figure had risen to 62.3 percent by 1985. Further breaking down figures for trade in manufactured goods, trade in high-tech machinery increased ten-fold from 1965 to 1980. Further breaking down trade figures for machinery, \$16.68 billion worth of digital control equipment was traded in 1985, which was 2.5 times the figure for 1979.

B. Future Trends in International Trade

1. Regionalization and formation of blocs in world trade has been further strengthened.

Since the founding of the European Economic Communities in 1958, regionalization and the formation of blocs in world trade has grown stronger by the day. In 1988, the United States and Canada passed the "U.S.-Canadian Free Trade Agreement." A plan to unify the European market in 1992 has gone into effect. Japan is planning the establishment of an organization which would bring about relatively close economic and trade cooperation between itself, the "Four Tigers" of Asia, and the countries from the Association of Southeast Asian Nations (Asean). The nations of South America established a common market in 1998. Africa is planning the establishment of an economic community. All of these developments mark the trend of world trade development for the 1990's and even the 21st century. This is the inevitable result of the continually deepening economic interdependence of all nations in the world. On the one hand, by eliminating trade barriers between different regions or within certain blocs, it will strengthen economic and trade cooperation between member nations and will spur the development of trade with these regions or blocs. But in another and more important aspect, regionalization and the formation of blocs represents an attempt the member nations to band together against non-member nations, and it means that nonmember nations face greater trade barriers when they try to access the member nations' markets. This

clearly smacks of trade protectionism and will lead to international trade wars between regions and blocs.

2. Nonprice factors will become a key tool for competition in international trade. In the 1980's, competition in international trade has been heightened by the rapid development and application of science and technology, the spread of information, the fact that the world market has changed from a seller's to a buyer's market, and the increasing convergence of industrial structures, consumption forms, and consumption patterns in different countries. As more factories have begun to produce and sell the same products, such nonprice factors as quality, brand names, packaging, pre-sales service, after-sales service, and advertising have become tools of competition.

3. Trade protectionism will intensify, and nontariff trade barriers will become the main weapon of combat.

The United States' passage of the "1988 Omnibus Bill on Trade and Competitiveness" had several effects. Asia's "Four Litter Tigers" lost their benefits under the U.S. Generalized System of Preferences. The United States and Europe clashed over farm subsidies. The United States and Japan clashed over electronic goods. Trade barriers between developing and developed countries have risen higher. Rivalry between developing countries over limited markets for agricultural and primary products has intensified. All of these facts show that trade protectionism is growing more intense, and that nontariff trade barriers will play a major role. A World Bank report has indicated that in 1983, nontariff trade barriers used by industrialized nations reduced imports from developing countries by 20 percent. The United Nations Council for Trade and Development issued a report in 1985 which stated that nontariff import barriers are targeted primarily against textiles, clothing, processed foods, and shoes. Exports of these products were reduced from 28 percent to 50 percent. The European Economic Communities reduced imports of textiles and clothing by 80 percent, and the United States cut shoe imports by 70 percent.

4. The new technological revolution will further worsen trade conditions from developing countries. The rapid development and application of modern science and technology will bring on two undesirable consequences. One is the invention and application of new materials and energy resources. The other is the fact that the improvement of production technology will greatly reduce consumption of raw material and energy resources, and it will reduce human labor inputs. Furthermore, the use of new materials, new energy resources, new technologies, new production techniques will cause demand for the world's natural resources and energy resources to level off, and even fall in some cases. Labor-intensive "sunrise industries" in the industrialized countries will come back to life. If developing countries cannot absorb and utilize the results of the new technological revolution and readjust their industrial

structure and their import-export commodity mix, further deterioration of their trading conditions is inevitable.

II. A Look Back at Trade in China's Special Economic Zones and a Look Forward to Coming Challenges

In the 10 years since the establishment of the Special Economic Zones [SEZ's], development of foreign trade in the zones has gone through two stages. The first stage ran from their establishment through 1985, during which time imports exceeded exports (imports in Shenzhen exceeded exports from 1982 through 1982 by factors of, respectively, 4.6, 2.2, 2.9, and 2.2) and interior trade exceeded foreign trade (products imported or assembled in the SEZ during that period had a severe impact upon markets in China's interior, which incurred heavy criticism from people in the inland provinces). The second stage has run from 1986 through the present time. Due to the pressure caused by the impact upon China's inland provinces of products imported or assembled in the SEZ's, the focus of economic development in the SEZ's has begun to shift from trading to industry, and channels of trade between the SEZ's and the inland provinces have been put under rigorous oversight (including the use of SEZ management channels). This has changed trade structure in the SEZ's and has, to a certain extent, corrected the predominance of imports and interior trade.

A. Exports have increased rapidly and the proportion of locally manufactured goods has gone up.

Let us take the examples of the SEZ's in Shenzhen and Xiamen. Shenzhen's exports in 1979 only totaled \$9.3 million, but they had reached \$1.85 billion by 1988, second only to Shanghai. Shenzhen's locally manufactured products totaled \$820 million in 1987 and accounted for 58 percent of total exports. Xiamen's exports in 1980 only totaled \$140 million, but they had grown \$576 million by 1988, an increase by a factor of 4.1. Of this total, locally manufactured products accounted for roughly 20 percent.

B. Foreign-invested enterprises (FIE's) have become an important force in the SEZ's for exports and foreign-exchange earnings.

From 1979 to 1987, Shenzhen obtained a cumulative total of \$800 million of foreign exchange income from its FIE's, as well as \$300 million in processing fees. Of the \$1.41 billion in foreign exchange income from exports in Shenzhen in 1987, FIE's accounted for \$507 million, or 36 percent. The export ratio of FIE's has averaged above 50 percent. Total exports by FIE's in Xiamen in 1987 and 1988 accounted, respectively, for 16.09 percent and 14.67 percent of total SEZ exports in those years.

C. The export commodity mix has become more rational.

With the rapid development of industry in the SEZ's, exports from the SEZ's are now mostly manufactured

products (where they formerly consisted mainly of perishable goods and agricultural, sideline, and local specialty products). In 1987, industrial output value accounted for 58 percent of total social output value in Shenzhen, and 53.3 percent of total industrial output value went for exports. Food grains, edible oils, livestock and poultry, metals, and minerals accounted for 85.15 percent of total export value in Xiamen in 1980, while light industrial products and arts and crafts accounted for 14.85 percent. By 1987, the former figure had dropped to 60.15 percent while the latter had risen to 26.05 percent. Medicines, chemicals, precision instruments, and machinery, of which there had been no exports in 1980, accounted for 12.26 percent.

D. To a certain extent, the SEZ's have spurred exports of products from China's inland provinces.

All of the ministries and commissions of the State Council as well as the various provinces and municipalities (autonomous regions) have set up offices, trading companies, and inland liaison enterprises in the SEZ's. They are using the SEZ's as windows and taking advantage of favorable treatment granted the SEZ's to expand markets in Hong Kong, Macao, and overseas. This has spurred exports of products from the inland provinces.

However, difficulties have beset SEZ foreign trade, and underlying crises lie in wait. These problems will be most clearly demonstrated in four challenges that will face SEZ's in the future.

A. The trading commodity mix is limited by industrial structure, and it will be difficult to achieve a strategic readjustment.

The current situation of industrial structure in the SEZ's is as follows: Tertiary industry is expanding at an excessively rapid pace. Primary industry is contracting. Basic secondary industries are very few, and cannot satisfy the need for a rapidly expanding processing industry. There will be no choice but to rely on imports to fill the void. Currently, the main exporters and earners of foreign exchange in the SEZ's are short-chain industries [duan lian tiao gong ye 4252 6969 2742 1562 2814—industries requiring few intermediate stages of processing] which purchase foreign raw and semifinished materials, components, and intermediate products which they further process and assemble. There are more electronics assembly lines than any other sort. Although this type of assembly industry, which has "both ends outside the country," has been able to fully bring into play advantageous labor and land resources when the SEZ's were just getting established, in the long run this situation is not conducive to the establishment by SEZ's of a system of export industries that is internationally competitive, and it does not facilitate efforts to raise the percentage of exports that are manufactured in China. Furthermore, because the marketing channels of these assembly industries, which have "both ends abroad" as they import and export large quantities of goods, are mostly in the hands of foreign firms, a large portion of the profits flow to

foreigners, and net foreign exchange profits are relatively low. Also, the narrow industrial structure engendered by this activity has caused SEZ export commodities to be excessively concentrated in primary products and electronics, which has impeded efforts to optimize the export commodity mix.

B. Macroeconomic control of foreign trade may be lost.

Because enterprises in the SEZ's enjoy autonomy over their import and export decisions, 100 percent foreign exchange retention rights, and other preferential treatment, foreign firms, all the ministries and commissions under the State Council, and various provinces and municipalities have rushed to set up industrial and trade enterprises and trading corporations in the SEZ's in order to obtain import-export privileges. Many enterprises with import-export privileges but few or no products of their own go inland to snap up goods at high prices, which they then export under the SEZ rubric; at the same time, they import high-quality consumer goods and scarce materials, which they then resell inland. Although this activity has abated somewhat, a fundamental resolution of the problem has yet to be found. If we do not adopt firm measures to cleanse and rectify the current ranks of import-export enterprises, the macroeconomic climate for foreign trade in the SEZ's is unlikely to see any fundamental improvement.

C. The "preferential" policies currently accorded the SEZ's are turning into "generalized preferences" enjoyed outside the SEZ's.

The SEZ's are areas in which "special policies and flexible measures" are implemented. However, as the inland provinces have become more open to the outside world, preferential policies have appeared in great numbers, greatly reducing the gap between the preferential treatment enjoyed by the SEZ's and the inland provinces. The SEZ's and the inland provinces now retain the same percentage of above-quota profits as the inland provinces. There are too many import and export licenses and restrictive export quotas. In addition, markets in inland China have been sealed off from each other. All of these situations will cause problems in the future for foreign trade in the SEZ's.

D. An excess of oversight procedures and falling administrative efficiency are increasingly becoming a bottleneck impeding the development of foreign trade.

A Chinese SEZ is an entire city with a large land area, large population, industry, transportation, commerce, trade, banking, and services. The Hainan SEZ also encompasses a large number of poor villages. This makes an SEZ government an all-encompassing overseer of society, taking care of its inhabitants' needs for clothing, food, housing, transportation, law and order, education, and employment. The result is that oversight organs have swelled to excess proportions, dealing with the government has come to entail countless trifling procedures, and efficiency has gone down. For example, when

a foreign firm comes to make an investment in Shenzhen, it generally takes from four to six months from the time an investment is proposed until it is approved, and the proposal must pass through more than 30 government agencies and 60 reviews. Special economic zones in foreign countries, however, (and especially those in developed countries) are more easily isolated because they are small in area, have few inhabitants, and residential areas are separated from industrial and trade zones. Oversight organs are highly efficient, and procedures are simple and quick, which enables these zones to provide enterprises with an excellent climate for investment and foreign trade.

III. Some Thoughts on SEZ Strategies for Development of Foreign Trade

This writer feels that the design and choice of an SEZ foreign trade strategy should be based on the central leadership's policy of reform and opening up, and on the strategic aims which had prompted the establishment of the SEZ's.

A. SEZ foreign trade strategy must: bring into play the pivotal role of the SEZ as a window of technology, knowledge, management, and foreign policy, as well as its dual "swinging door" role vis-a-vis inland China; build up a reservoir of experience for China's policy of opening up to the outside world as well as its program of economic reform; and help to maintain stability and prosperity in Hong Kong and Macao while promoting the return of Taiwan.

B. SEZ foreign trade strategy must be coordinated with SEZ economic development strategy and national foreign trade development strategy. In order to achieve this, SEZ foreign trade strategy must be in step with international trade and its developmental trends, and it must take into account actual economic and trading conditions. We must continually explore, adjust, and perfect.

In accordance with the principles described above, this writer feels that the SEZ's should choose a foreign trade development strategy which "combines export orientation and import substitution, and gives top priority to export orientation" The strategic goal should be to bolster the economic strength of SEZ's, promote prosperity and economic development in the SEZ's, and enable the SEZ's to become the entire country's bases for exports and foreign exchange earning. At the same time, the SEZ's should become a bridge to facilitate the foreign economic and trade activities of inland provinces in order to provide impetus for China's economic development and technological progress. In concrete, we must do the following:

1. We must continually optimize industrial structure and the import-export commodity mix in the SEZ's.

2. We must gradually deepen and broaden foreign economic and trade activities in the SEZ's and enable the SEZ's to play a pivotal "four windows" and "two swinging doors" role.

3. We must stimulate the growth of export-oriented industries, promote the establishment of a higher quality, more international industrial structure, and strengthen the international competitiveness of SEZ products.

4. The SEZ's must blaze a trail in foreign trade for the rest of the country to follow, and they must provide services that will encourage the inland provinces to utilize foreign exchange and import advanced, practical technology.

5. The SEZ's must expand trade with Taiwan, become bridges and bases for carrying out the "three contacts" with Taiwan, and provide impetus for the implementation of the "one country, two systems" strategy.

6. We must continue to expand market share in Hong Kong and Macao, expand overseas markets, diversify markets, and make SEZ's become the country's bases for exports and foreign exchange earning. They must become bases for using production to resist imports.

Current conditions in the SEZ's are such that we could achieve the goals of our SEZ foreign trade strategy in two stages:

1. From now until 1992 would be the readjustment stage. This would entail several main tasks. We would have to cleanse the ranks of foreign trade agencies (including all corporations and enterprises which are engaged in import and export activities) and rectify circulation order. We would have to adopt a policy of targeting certain industries for support or disincentives, giving priority support to export-oriented industries and import substitution industries. We must raise the overall foreign exchange earnings of SEZ's by taking in more and conserving more. We could organize chambers of commerce along industrial lines.

2. The period from 1993 to the end of the century and beyond would be the expansion stage. This would entail the following primary tasks: While continually improving the investment climate, we would have to guide the flow of investments by foreign enterprises and inland liaison enterprises, and raise the overall benefits from the use of "foreign capital" and "domestic capital." We will have to set up comprehensive chambers of commerce, coordinate the foreign economic activities of enterprises engaged in importing and exporting (including overseas investments), and provide comprehensive services to enterprises, including information, banking, transport, and insurance. We will have to begin to set up an overseas marketing network, and promote diversification of export markets. We will have to work hard to develop high-tech industries and to bring about the formation of a three-dimensional export commodity mix which is labor-intensive, capital-intensive, and technology-intensive. Exports of high-tech products must take top priority. We will have to strengthen basic industries, continually improve industrial quality, and achieve balanced development at the same time that we target certain industries for support or disincentives.

In order to achieve the tasks described above, we will have to adopt the following measures:

A. We must strengthen macroeconomic control of foreign trade.

One thing we must do is to make oversight organs more sound. Each SEZ should establish an import-export committee which will plan as a whole the power structure for foreign trade, all trade, commodity inspection, customs, price, and foreign exchange activities in each SEZ. Such a committee would provide "one-stop service" and raise efficiency. Import-export committees would guide the work of various chambers of commerce in the import-export industry, and the chambers of commerce would serve as intermediaries between the import-export committee and enterprises. Their main functions would be to: coordinate import and export markets; prevent redundant imports; prevent bidding wars between purchasing agents who drive prices up, and price slashing among exporters seeking to boost sales; establish international marketing networks; provide market information; coordinate prices of import and export commodities, as well as other trading conditions; ensure fair competition between import and export enterprises within the principle of presenting a united front to the outside world; and impose sanctions upon member enterprises which violate the charter of their chamber of commerce.

The second thing we must do in this regard is to cleanse the ranks of import-export enterprises. We must get a clear idea of the total number of enterprises in each SEZ with import-export privileges, as well as their distribution among different industries. We must review the qualifications of enterprises that have import-export privileges, and have them re-register. We must revoke such privileges for enterprises which lack the proper qualifications, such as "trade-oriented" corporations (i.e.—corporations which reap illegal profits by taking advantage of contrasting exchange rates or differing international and domestic prices to engage in arbitraging). Flagrant violators should be turned over to industrial, commercial, and justice departments for investigation and punishment.

B. We must perfect import-export policy and optimize the import-export commodity mix.

Perfecting import-export policy is an important method for optimizing the import-export commodity mix. Let us first examine export policy. We should accord top priority to optimizing the export commodity structure. We should reduce preferential treatment given to exports of high loss products and some primary products which lack international competitiveness. We should increase preferential treatment given to exports of products that have a high value-added component, are highly processed, or are high-tech. We should raise the percentage of exports contributed by technology-intensive industries. Let us next consider import policy. We must resolutely avoid blind imports and redundant imports of

low-quality products, especially imports of items which only use up foreign exchange without earning or which cannot help us achieve our purpose of resisting imports through production. We must give top priority to encouraging the import of projects which resist imports through production, those which facilitate upgrading of industrial structure in the SEZ's, and those which can provide export industries with needed capital goods, raw materials, and semi-finished materials, in order to achieve the goal of optimizing industrial structure and trade structure.

C. We should implement an industrial development strategy which targets some industries for support and others for disincentives.

Industrial structure determines trade structure. The SEZ's are characterized by the existence of various economic entities, diversified economic sectors, and scattered economic interests. It would be impossible for them to establish a self-sufficient industrial system, nor is there any need for them to do so. On the contrary, SEZ's should fully utilize international and domestic resources and markets to implement a two-way cycle and increase value. This requires that SEZ's use the relative advantages of their industrial structure to optimize structure and quality and promote optimization of the foreign trade mix.

1. Each SEZ should compare its industrial structure and industrial quality with those of other countries and identify export-oriented industries and import substitution industries. At the same time, we should use industrial policy (including industrial organization policy, industrial structure policy, and industrial technology policy) to regulate the rational allocation of economic resources.

2. We should accord priority to supporting export-oriented industries, take full advantage the advantageous geographical position and special policies enjoyed by the SEZ's, and flexibly readjust industrial structure as dictated by changes in world production and consumption structures.

3. We should target import substitution industries (especially basic industries) which can raise the percentage of export products which are manufactured in China as priority recipients of support in order to raise the foreign exchange earnings ratio per unit of export and to expand total foreign exchange earnings in the SEZ's.

4. We should support a number of high-tech industries as the strategic and anchor industries in the SEZ's in order to spur improvement of industrial quality and strengthen the staying power of SEZ economic development.

D. We should adopt a diversified market strategy.

At this time, over 70 percent of total SEZ exports go to Hong Kong and Macao. If the SEZ's are to expand exports and reduce exposure to risks, they must adopt a

strategy of diversifying their markets. They must do all they can to avoid concentrating most of their exports in a single market. Also, at the same time that they strengthen market research and collect information on market prices, they must also market development efforts on countries and territories with good market potential, rational prices, and prospects for high foreign exchange earnings.

E. We should loosen regulation and control of export and import activities in the SEZ's.

Current regulation and control of import and export licenses has seriously limited development of foreign trade, Taiwan trade, transit trade, and export through agents in the SEZ's, and it has put a damper on the growth of SEZ's as export bases and their performance as hubs through which goods flow abroad. To the extent that it does not harm domestic markets and does not impair the state's macroeconomic regulation and control of foreign trade, we should expand SEZ regulatory authority over imports and exports as well as their authority to issue permits. As for the export by SEZ's of locally manufactured products, as well as the re-export of imported materials and components, we should raise quotas and loosen restrictions on permits. With regard to import and export commodities that are subject to quota and license restrictions, departments dealing with economic relations and trade could "decentralize on a geographical basis," handing authority over to the SEZ's, which would exercise flexible control of these matters within certain limits; or, a person specially appointed to serve in the SEZ's could issue import and export licenses and exercise supervision and regulation of SEZ foreign trade activities.

F. We should attach importance to having export products reach international production standards, and raise the international competitiveness of export products.

With respect to the design, specifications, types, and safety standards of their products, the SEZ's should adhere to internationally accepted standards. They should strive to meet international standards and satisfy client requirements regarding product specifications. They should promote exports and expand overseas markets by providing universally accepted product lines, appealing designs, high quality, and attractive packaging.

Hainan Reforms Foreign Exchange Control System

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[Article by Hsiao I (5135 3015): "Hainan SEZ's Foreign Exchange Management Reform"]

[Text] Facing a New Problem

In 1988 Hainan Island became China's largest SEZ [special economic zone] and began to implement a

liberal policy to open up to the outside. It has evolved from a closed, semi-natural economy into an open, market economy and has undergone dramatic changes. Its exchange control is meeting new demands and facing new problems.

Before it became a province, Hainan Island used to deliver its foreign exchange earning from export to the higher authorities according to its assigned base and receive a fixed subsidy from the central government in return. Since 1988, it has implemented a foreign exchange contract responsibility policy to keep all of its foreign exchange earnings and take full responsibility for its profits and losses. After drawback [tax rebate on reexporting], because there are differences between the domestic and foreign price systems and the RMB's [renminbi] high exchange rate and because the cost of Hainan's exports is too high, Hainan must still rely on foreign exchange retention and compensated regulation in order to take care of its profits and losses.

If the foreign trade enterprises are to comply with international practices and enter the world market with greater flexibility, the foreign capital utilization policy must be further relaxed and the province must have more authority to manage its exports, examine and approve imports, and conduct foreign trade transactions. With respect to exchange control, there should be less restriction and simpler steps in using, regulating, and allocating and transferring foreign exchange. The old exchange control system that centered around quota management had to rely on administrative measures and was economically inefficient, rigid, and lack the flexibility to meet emergencies. Obviously it is not appropriate under the new situation.

As a newly established small province and SEZ, Hainan needs to give play to its comprehensive superiority as a SEZ and cooperate with Hong Kong, Taiwan, overseas, and the mainland economically to supplement each other and make up for its weak economic base at the same time. As Hainan steps up efforts to import from abroad and cooperate with mainland units, the frequency of exchange between RMB funds and foreign funds will increase as funds circulate. Hainan's foreign exchange and RMB balance and circulation must rely on fund transactions with the mainland. How to guarantee the smooth exchange of funds between two different currencies in the production and circulation sectors and the domestic and foreign markets without disrupting the mainland market is a new problem Hainan is faced with. Furthermore, how to strengthen economic cooperation, promote the lateral flow and efficient use of foreign exchange funds, maintain the state's foreign exchange reserve, preserve order in foreign trade operations, and sustain steady and smooth foreign economic development are also a problem.

The SEZ's enterprises are developing an export-oriented economy by putting both ends abroad, engaging in

massive importing and exporting, and ensuring quick turnaround of imports into exports. These enterprises and projects need the banking industry to provide such services as fund gathering and distribution, settlement, and credit loans to facilitate plant and equipment investment, handle workers' payroll, provide operating funds, and take care of the money after the goods are sold. They help to speed up the financial institutions' reform and turn them into multipurpose, externally oriented, comprehensive, and high efficiency institutions.

Manifestations of a Unique Foreign Exchange Management Policy

The central government has granted Hainan a unique foreign exchange management policy as manifested in the following areas: 1) Hainan Province is responsible for its own foreign trade profits and losses. With respect to foreign exchange earnings, until 1995, Hainan will keep all foreign exchange income generated by the export of goods it produces and goods it processes based on mainland raw materials and semi-finished goods if processing adds 20 percent to the value of those goods and materials. Hainan retains a portion of the foreign exchange generated by the export of goods purchased by Hainan Province from other provinces, autonomous regions, and municipalities which are not processed or which processing adds less than 20 percent to the value of those goods; retention is based on the above-quota foreign exchange income retention percentage set by the state. Hainan retains all foreign exchange income generated by the processing or assembly of imported materials and compensation trade, foreign exchange generated by tourism, and foreign exchange remitted to families or donated by overseas Chinese, Hong Kong and Macao compatriots. 2) Hainan enterprises engaging in any kind of business activity to earn foreign exchange may retain their spot exchange. 3) Hainan Province may set up its own foreign exchange regulation market, and supervised by the exchange control departments, enterprises may regulate foreign exchange among themselves; the regulation price may vary, and the regulation restrictions have gradually been eased. 4) Hainan Province may set up foreign-owned banks, Sino-foreign joint-venture banks, and financial companies that do business with out-of-town investors. Their business operation scope has been extended. 5) Hainan Province may raise or borrow development and construction funds abroad directly so long as it pays back those loans on its own. The loan volume is to be determined each year by the province based on its ability to repay. It should submit its plans to the State Planning Commission for approval. If approved by the department in charge in the State Council, Hainan may also issue bonds overseas. The Hainan branch of People's Bank of China is empowered to authorize a handful of qualified financial institutions and other enterprises to handle the above operation. 6) Out-of-town investors whose Hainan investments make a profit may remit money overseas freely from their foreign exchange accounts and are exempt from paying income tax on the sum remitted.

Preliminary Reform of the Exchange Control System

To meet the needs of the changing political and economic systems and the development in Hainan Island, the province has instituted preliminary reform of the exchange control system in the last two years, and it has already shown results:

A. Hainan has improved its foreign exchange distribution and management systems and has put in place a spot exchange retention method. Prior to its becoming a province, Hainan at one time implemented a policy of 30 percent spot exchange retention while settling 70 percent of its export foreign exchange earning. In May 1988, the State Administration of Exchange Control approved an experimental spot exchange retention method for Hainan. So far, Hainan has accomplished the following:

1. To guarantee the smooth transition to the new retention system, during the trial period, Hainan offers the customers a free choice of spot exchange or exchange quota for their foreign exchange income retention.

2. The Hainan Provincial Government has made public the following foreign exchange retention percentages: Hainan enterprises retain 90 percent of the turnover foreign exchange based on the total amount of foreign exchange earned through exporting; the government adds 2.50 RMB for every \$1 put in the exchange quota. Enterprises that import from abroad and cooperate with mainland units are entitled to 96 percent retention; the government adds 1 RMB for every \$1 put in quota. The "three forms of import processing and compensation trade" enterprises retain 85 percent of their foreign exchange conversion charges. Overseas Chinese remittance—85 percent retention; tourism—96 percent; other nontrade foreign exchange—80 percent.

3. The State Administration of Exchange Control together with the government planning departments and the banks have decided on a retained foreign exchange allocation method.

4. "Hainan Province's Method of Managing Various Units' Spot Exchange Accounts" and "Hainan Province's Temporary Method of Managing the FIE's [foreign funded enterprises] Foreign Exchange Accounts" promulgated by the provincial Administration of Exchange Control have been approved by the State Administration of Exchange Control for trial implementation.

B. A three-in-one, time, price, and policy, exchange mode is implemented to help the foreign exchange regulation market operate more smoothly. After two years, Hainan's foreign exchange regulation center has made much progress in readjusting the internal structure, improving the exchange format, increasing visibility, and speeding up the market-orientation process. A lively and perfected foreign exchange regulation market helps regulate the surpluses and deficiencies among

enterprises more efficiently, balance income and expenditure, and make up for losses incurred in exporting. In 1988, Hainan Province regulated a total of \$160 million; the figure went up to \$280 million in 1989. During reform, the following characteristics have emerged: 1) A large share of the transactions are spot exchange transactions. In 1988, 42 percent of the transactions were spot exchange regulation; it went up to 85 percent in 1989. Statistics gathered in mid and late 1989 indicate that spot exchange retention made up 80-90 percent of all foreign exchange income. 2) Much of the regulation is made up of retained foreign exchange. In 1988, 61 percent of the regulation was for retained foreign exchange; by 1989, it went up to around 90 percent. 3) Foreign exchange regulation is mainly for the purpose of obtaining foreign exchange to pay for imported raw materials and equipment and for energy and communications systems and other infrastructure. 4) The exchange procedure has been simplified; there is less administrative interference, and the transactions are completed in a timely fashion.

C. Hainan has strengthened management and is coordinating with and encouraging the financial institutions to develop foreign exchange operations. In order to meet the foreign exchange banking needs of the foreign trade enterprises and FIE's during the development of the externally oriented economy in this large SEZ, Bank of China has set up primary level banking offices in 12 counties and cities. Industrial and Commercial Bank, Agriculture Bank, People's Construction Bank, and China Investment Bank and three other nonbank financial institutions—The Trust Company of Bank of China, the Provincial National Trust Company, and the Funan National Trust Company—have also set up foreign exchange operations. Most county and city branches of the specialized banks handle foreign exchange businesses as agents. Nanyang Commercial Bank's Haikou Branch opened for business on the island in October 1988 and has done well so far. Standard Chartered Bank (Maijiali [7796 0502 0448]) has been approved by People's Bank of China, and preparations are being made to open an office on the island in 1990. The exchange control departments are managing the foreign exchange banking business according to the following basic principle: They allow the banks to continue to conduct a reasonable amount of overlapping foreign exchange businesses. They encourage the specialized banks to focus on the provincial level branches when developing business and concentrate their resources on improving the provincial level banks' professional ability and prevent the dispersion of foreign exchange funds. Nonbank financial institutions should maintain stability and improve management. The departments actively support the attraction and development of wholly (partially) foreign-owned banks. In order to smooth out relationships, circulate information, relay policies, and solve practical problems, the Administration of Exchange Control hopes to set up a foreign exchange banking joint conference system. In

addition, it has increased everyday inspection and has strengthened management of foreign exchange banking operations.

D. Hainan has tightened statistical control and measurement of foreign debts and is in control of the whole province's foreign debt situation. Hainan had a late start in getting foreign loans. The province is in need of large sums of foreign exchange funds to finance its development and constructions just at a time the country is limiting the scope of borrowing and when overseas funds are generally tight. On the one hand, the Administration of Exchange Control is sorting out information and files on debts accumulated over the years and is routinely publicizing its foreign debt policy to give the relevant departments and enterprises that borrow foreign loans a better sense of what banking is about. At the same time, it is drawing up its borrowing plans using internationally accepted indexes to control the foreign debt volume and is tightening control over the examination and approval of foreign debts by channeling all foreign borrowing through the Hainan Provincial International Trust and Investment Corporation, one of the nation's 10 largest windows. Registration, statistics gathering, and examination and approval of foreign loans are gradually becoming a daily routine. In 1989, despite the tightening of loans to China by foreign banks worldwide, Hainan still managed to obtain \$34 million in loans and paid \$13 million in principal and interest during the same period.

E. Hainan is conducting in-depth investigations and studies and foreign exchange inspections. Hainan is at the front line of reform and opening up. New situations and new problems continue to emerge in the foreign exchange domain. The exchange control departments must constantly attend to, solve, and deal with these problems and integrate them into their business management, information sorting, and inspection tasks. Based on practical problems encountered in the last two years, the Administration of Exchange Control has launched investigations and studies into spot exchange retention, FIE foreign exchange revenue and expenditure, and the trend of foreign exchange regulation prices. In examining and handling foreign exchange transactions, the administration has combined closer banking supervision with publicizing the laws and regulations and improving its own management. It is handling things case by case. It has successfully curbed the one-time rampant illegal foreign exchange activities and has stabilized the SEZ's foreign exchange operation and restored management order.

Qingdao Mayor Discusses Accelerating Development

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[Article by reporter Zhang Yeping (1728 0048 1627):
"What Qingdao Is Doing To Quicken the Pace of
Opening Up—An Interview With Mayor Yu Zhenxing"]

[Text] It is midsummer here in Qingdao. We are staying at the Huanghai Hotel at the foot of a hill by the sea, looking out at the distant Jiaozhou Bay. The sky is blue and so is the sea. Dotted the rolling hills of Yushan are red rooftops and green trees. Along the seashore is a spacious bathing beach and a winding road shaded by trees. On the hillside are red-roofed houses of all shapes and sizes scattered among the trees, displaying the elegance and charm unique to this summer resort by Huanghai.

But what attracted us even more are the changes this coastal port and industrial city has undergone since its opening up and the new steps it is prepared to take. When we first suggested interviewing Mayor Yu Zhengsheng [0151 2973 5116], comrades from the Qingdao City News and Information Dissemination Center told us that July, August, and September are Qingdao's busiest tourist season; it is a time when many important Chinese and foreign guests descend upon the city. Mayor Yu will be extremely busy. But they went ahead and made contact and Mayor Yu was willing to take time out despite his busy schedule to talk with reporters from JIEFANG RIBAO.

Our topic was: There seems to be a new momentum in China's opening up. What are Qingdao City's plans and possible action?

Mayor Yu went straight to the point and said that the Central Party Committee's decision to make the construction of Shanghai's Pudong Development Zone the focal point of the Eighth 5-year Plan as a way to open up further to the outside world is correct and that everybody should support Pudong's development and construction. The opening up and development of Pudong will bring along the development of coastal eastern China and even the whole country. Qingdao should take advantage of the new momentum spurred by Shanghai's opening up of Pudong, do a solid job, and take a big step toward opening up the city even more.

Mayor Yu said Qingdao will not offer any new preferential policies. Instead, the city will make the most out of the existing policies and will focus on the following matters:

1. Strengthen infrastructure constructions: Upon expansion, the suburban Liuting Airport can now accommodate large and mid-sized passenger planes and has started regular chartered flights to Hong Kong and connecting flights to Japan via Shanghai as well as 19 other domestic routes. Today, efforts are being directed to building and perfecting facilities to complement the airport and to increasing international chartered routes so as to promptly turn Qingdao into an international air transport hub. The Jiaozhou Bay Coastal Highway which links urban Qingdao with the Huangdao Economic and Technological Development Zone, the Jiao-Huang Railway which links the Huangdao Development Zone to the Jiao-Ji Railway, and the Jiao-Ji multiple tracks and the Ji-Qing and Yan-Qin Highways which link Jinan

and Yantai to Qingdao have all been designated major state, provincial, and city projects and are under intensive planning. With respect to post and telecommunications, a satellite communications ground station is under construction. In addition, 100,000 program-controlled telephone exchanges will be brought in, striving to bring program-controlled telephones to every village and town by 1993. The construction of Qingdao's subway system has also been put on the city's agenda.

2. Create a good investment environment: This includes perfecting the economic laws and regulations involving foreign nationals promptly to give foreign investors a greater sense of security. Services involving foreign nationals will be strengthened and improved, work efficiency and service quality will also be improved, and education and training of professionals and key management personnel who handle foreign economic relations will be intensified. Years of practice has proved that the success of a department's or locality's foreign exchange utilization tasks depends largely on having a group of capable foreign trade specialists; the success and efficiency in negotiating foreign exchange projects depend on the quality of the personnel involved, and the success of FIE's [foreign-funded enterprises] also depends on the quality of the managers provided by the Chinese side. Therefore Qingdao is determined to put the emphasis on educating and training professionals and key management personnel.

3. Focus on the construction of the development zone: Besides continuing to perfect the Huangdao Economic and Technological Development Zone, Qingdao has set aside more than 20 parcels of land in urban Qingdao and will begin to implement a system of paid-transfer and sale of land use-rights and make use of some preferential policies to attract and encourage foreign investors to develop land and start enterprises here. The standard land-use fee is based on Qingdao's actual conditions and will vary according to location, project, and time period and can be adjusted with ease if needed.

Mayor Yu Zhengsheng said that Qingdao is Shangdong's Shanghai. Qingdao, just like Shanghai, has a heavy financial burden, and the city is heavily in debt and is facing numerous problems. He said that Qingdao is mobilizing every citizen to become more liberalized in thinking and be more enthusiastic and is cultivating the idea of opening up as a unit and is quickly forming a strong combined force to quicken the pace of opening up to the outside world.

He disclosed that Qingdao will be hosting the Taiwan Strait Bicoastal Economic Relations and Trade Friendship Meeting in late August and has invited members of Taiwan's industrial, commercial, and financial circles to Qingdao to inspect the investment environment and discuss possible cooperative ventures. In September Qingdao will organize and send a special group to Japan to make door-to-door visits and rally those Japanese investors who have already shown interest in investing,

opening factories, and undertaking large-scale developments in Qingdao and will strive to begin the construction of an export processing zone soon. The civilian economic and trade relations between Qingdao and South Korea have also made headway, and Qingdao has stepped up public relations work in other countries and regions.

It has been more than six years since Qingdao opened up to the outside world. The city already has 70 wholly or partially foreign-owned enterprises in operation, and 395 advanced-technology projects brought in from overseas have also been completed and have gone into production. By utilizing foreign capital and attracting advanced technologies and equipment from abroad, more than 80 percent of the city-owned enterprises and a substantial number of the county-owned and small-town enterprises have undergone technological transformation, and their industrial structure and product-mix have been improved. Traditional light industry, textile, chemical industry, rubber and other trades and products have expanded and improved. Burgeoning electronics, household electrical, and tourist industries are the new, mainstay enterprises with new hot-selling products, injecting new life and energy into this old industrial town. Mayor Yu said with deep feeling that Qingdao depended on reform and opening up to strengthen the city's economy, that it is depending on reform and opening up to overcome the present economic difficulties and achieve sustained and steady economic development and will depend on reform and opening up to achieve this magnificent modernization goal.

He said that this new momentum in opening up is both a good opportunity and a formidable challenge. Today, with Guangdong, Fujian, and Shanghai to the south and Beijing and Dalian to the north all picking up the pace in opening up to the outside, Qingdao must take a good look at her own prospects and foster a greater sense of urgency, sense of danger, and sense of mission, and with the spirit of refusing to fall behind the others, and wanting to forge ahead courageously, Qingdao must get started quickly, make the first strike, and pick up the pace of opening up now.

POPULATION

Defining Floating Population

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[POPULATION AND ECONOMICS] in Chinese No 3,
25 Jun 90 pp 53-55, 27

[Article by Wu Ruijun (0702 3843 0689), Population Institute, Huadong Normal University: "Defining Floating Population"]

[Text] As economic reform intensified steadily in recent years, China's floating population has also increased substantially across the nation, making floating population a major social issue that has attracted widespread public attention.

More and more articles on floating population have appeared in local demographic publications and statistical surveys on the subject are multiplying by the day. However, the concept of floating population remains ill-defined in many of these works and surveys. Since the object and scope of research are determined by the definition of floating population, how accurately we define the term has a direct bearing on the value of survey results and the effectiveness with which such results can be used to guide practical action. This article proposes to examine the meaning of the concept of floating population comprehensively.

1. Analysis of the concept of floating population by the Chinese demographic community.

The Chinese demographic community has defined the concept of floating population in many ways, which can be summarized as follows:

First, some people proceed from the economic perspective and define it according to its underlying causes. The floating population is defined as made up of people who enter a locality to engage in economic activities without changing their permanent registered residences.

Second, others proceed from pure administrative and managerial needs. The criterion is the possession or otherwise of residence registration in a particular locality. A floating population is that portion of the population that stays in a specific locality without changing its permanent registered residence.

Third, the perspective of this group is purely demographic. The only criterion is whether or not the place of permanent registered residence has changed. The floating population is defined as all kinds of moving populations that have not changed their permanent place of residency.

Fourth, some people take the migration perspective and consider the floating population a special form of migrants. In other words, the floating population is thought of as consisting of people who live in a particular geographical area on a short-term basis.

What gives rise to these four viewpoints is the fact that people apply the concept of floating population from their own perspectives. The first two viewpoints emphasize the fundamental factors behind the emergence of this phenomenon. The latter two, on the other hand, stress the scope of population movements and changes. While these definitions of floating population capture the uniqueness of that phenomenon under the new situation, they are inevitably one-sided in some ways because their proponents observe and analyze floating population from different angles.

The floating population is a widespread demographic phenomenon. What differentiates the floating population in China from those in other nations and regions is that the vast increase in the floating population in China is the result of the present economic policy and a

permanent residence registration management system interacting with each other. As a direct result of the current economic policy, the number of people engaged in social economic activities has risen sharply everywhere. A strict permanent residence registration system, however, has prevented them from becoming legal migrants. This is why we say that the residence registration management system and the current economic policy are the two underlying causes of the emergence of the floating population. At all levels and in all localities, administrative management agencies plan their work and projects in accordance with the size of the registered permanent population within their respective jurisdictions. As for the problems of people whose registered residence lies outside their jurisdictions, they are dealt with only as problems outside the plan. Under China's present residence registration management system, therefore, it is simple and practical to use changes, if any, in the permanent registered population in defining floating population. But this definition clearly fails to take into account the foreign floating population with no permanent registered residence. Foreigners staying in a particular place are not registered as permanent residents of that place. As such, they should be included in the floating population of the locality in question. However, we know that China is one of a handful of nations in the world with a permanent registered residence system. The bulk of foreigners who enter China do not have permanent residence registration. Accordingly, we cannot talk about changes in permanent residence registration. Clearly the two viewpoints both fail to include foreigners who have found their way into China.

In using the engagement in social economic activities as a hallmark of the floating population, however, the first definition excludes an even greater number of people. No doubt the overwhelming majority of China's current floating population are engaged in social economic activities, and they are indeed the mainstay of the floating population. But clearly, it would be a mistake to thus conclude that the floating population consists of people engaged in economic activities. The reason is that, as a result of the current economic policy, not only have more people been engaging in social economic activities, but there has also emerged a large floating population engaged in noneconomic activities. Moreover, we say that the current economic policy is an underlying cause of the floating population, but it is not the only reason. A floating population would have come into being even if China has not introduced the open policy or undertaken economic vitalization. As a demographic phenomenon, the floating population exists in any historical stage during any period. It is just that one floating population may differ significantly from another in magnitude and characteristics due to different backgrounds.

In demography, population movement is defined as any movement in space (or geographical territory). Based on this definition, provided his spatial (or geographical) location has changed, a person becomes part of the population movement. It matters not why he moves,

whether his change in location is regular or irregular, short-term or long-term, whether he moves a short or long distance, temporarily or permanently, and whether or not he returns to the original location. Defining floating population as the various kinds of mobile populations who have changed their permanent registered residences captures the inherent interconnection between the floating population and a moving population. Indeed, in spatial terms, the floating population belongs to and is a kind of moving population. From the demographic perspective, there is no reason why we cannot regard the moving population minus migrants as a floating population in a broad sense. In view of the state of China and out of consideration for the practical need to research floating population, there is no need to include in the ranks of the floating population some moving groups with no macro research value, such as workers who travel long distances to work in cities and nonresidential students. If necessary, we may organize special-topic research at the micro level. If we fail to differentiate between what is important and what is less important and define the floating population as all moving populations minus migrants, we would clearly be undermining the value of floating population research.

The internationally accepted definition of migration is movement of people across a set geographical boundary. The rule of thumb is that the person who has moved to a location for residential purposes becomes a migrant after living there for a year. Following this definition, some people incorporate the floating population into migrants, arguing that the only distinction between the two is that the former consists of short-term residents while the latter is permanent. According to this viewpoint, permanent residence registration is no longer the hallmark of the floating population, only the length of stay is. In China, in fact, there are fundamental differences between the floating population and migrants. In his book *A Course in Demographic Theory*, Professor Liu Zheng [0491 6927] defines migration as moving from one location to another, that is, permanent relocation involving a change in one's permanent registered residence. We can thus conclude that migration is "all-round" permanent relocation. Residence registration goes where one goes. Once the act of migration is completed, the individual's ties with the original place of abode are totally severed. The characteristic of migration is one-directional movement. The individual moves but does not "float": he moves out, moves in, and settles down. The floating population, on the other hand, is engaged in "partial" temporary relocation. Residence registration does not follow the person. While the individual has left his original place of abode, he still maintains some ties to it. The characteristic of the floating population is that it floats and moves. It involves dual-directional movement, back and forth between permanent registered residence, place of stay, and place where one lives away from home. Also, according to this definition, people who do not move for residential purposes, such as people in transit, are not considered part of the floating population.

2. Exploring the meaning of floating population.

Our ultimate objective in studying the floating population is to solve the floating population problems. By defining the concept of floating population from different perspectives, we are able to see the interconnections between them and use them to supplement one another to some extent. By the same token, however, it prevents us from reaching a consensus on how to define the floating population. The absence of a uniform definition not only complicates cross-comparing floating populations in different places on a theoretical level, but also often misleads the leaders of the departments involved on a practical level, which does nothing to help solve real problems. When you count the floating population according to different definitions, you come up with vastly different numbers. Hence the need to define it comprehensively, taking in the overall picture.

In view of the state of the nation at present, we may go about defining the floating population on the macro and micro levels in order to come up with a complete definition. On the macro level, the floating population may be defined as assorted mobile populations who cross a set geographical boundary without changing their permanent registered residence (foreigners who have not changed their place of residence). On the micro level, the floating population of any particular locality includes people who "float" in and people who "float" out. That is, people who move into that locality but are not registered as permanent residents there and people who are registered as permanent local residents but who float out for various reasons. Basically speaking, these two definitions are consistent with each other. This is because on the macro level, we can proceed from the perspective of the locality that receives the floating population or from that of the locality where the floating population originates. As far as the former is concerned, the floating population refers to groups of people who are physically there but whose registered permanent residence remains behind. On the micro level, however, any one locality has both a large inflow of people and a large outflow of people every day. The total floating population is the sum of the inflow and outflow of people.

Specifically, the definition of floating population has the following implications:

First, the floating population must cross a set territorial boundary. Without this territorial restriction, floating population studies would have nothing to rest on. Anybody who crosses the boundary is counted as part of the floating population. Anybody who moves within the area without crossing the boundary is not part of the floating population. If the object of our study is county-level administrative divisions, then only intercounty movements are considered as involving the floating population; intracounty population movements do not add to the floating population. If the object of our study is township-level administrative units, then any intertownship population movements give rise to the floating population.

Second, the permanent registered residences of the floating population remain unchanged. Only when an individual crosses a specific territorial boundary without changing his permanent registered residence (or, in the case of a foreigner, does not change his place of residence) would he be considered a member of the floating population. When a person crosses a set territorial boundary and then changes his permanent residential registration, he is a migrant, not a "floater." Provided he does not change his permanent registered residence, the person who crosses a specific territorial boundary is part of the floating population, irrespective of his motive for moving and regardless of whether he will reside in the new place and the length of stay. It needs to be pointed out here that there are some members of the floating population in China who are in effect migrants under the conventional international definition of migration. These people move from one place to another for residential purposes and live there for over a year even though they do not change their original permanent registered residence. Taking into account the uniqueness of the nation's administrative management, however, I believe it would be better to count them in the floating population. As to whether we should study these de facto migrants as a special population using migration methodology, that would be a question of choosing a methodology and should have no impact on including de facto migrants in the floating population when we define the concept of floating population.

Third, the floating population includes people who flow in and those who flow out. Many articles and statistical surveys on the subject define floating population in a way that in effect includes only the former and ignores the latter. From the demographic point of view, it is inappropriate to include only the inflow population and not the outflow population in an otherwise complete definition of floating population. And from the perspective of solving the floating population problem, we have even less reason to exclude the outflow population. We know that what is an inflow of population to one locality is an outflow to others. Not only does population floating cause serious consequences for the social economic life of the receiving jurisdiction, but, by the same token, it also has an impact on the originating place that cannot be overlooked. Take a certain locality, for instance. A large inflow of people would seriously disrupt the normal life and work of local residents and causes all kinds of problems for the normal conduct of every undertaking, among which the most striking are an increased burden on infrastructural facilities like transportation and housing, more strains on the markets for food, nonstaple foodstuffs and vegetables, worsening environmental pollution, and more elements of social instability. Moreover, a steep rise in population from outside would further complicate the family planning effort aimed at the floating population. At the same time, the outflow of local people would relieve some of the pressure created by the inflow of population from outside. For instance, pressure on local transportation and the demand created by the increase of population from outside for food,

nonstaple foodstuffs, and vegetables would ease up. To solve the social problems created by the floating population, we should analyze population outflow as well as population inflow.

Fourth, counting the floating population must follow specific statistical limits. The concept of floating population is a fuzzy one and the process of floating can assume many forms. Even when we have decided on a clear definition, we would still come across a host of practical difficulties when we get down to the details of conducting a floating population statistical survey. To facilitate such a task, we must clearly delimit the boundaries of the survey. Based on the definition of floating population, the statistical limits of floating population within the nation are the following. As far as the originating locality is concerned, floating population refers primarily to those people who leave the locality containing their permanent registered residences as well as people who have been away for a long period of time. As far as the receiving place is concerned, floating population primarily refers to: 1) guests who have checked in at hotels and guesthouses; 2) people who have registered at residential areas and dormitories for temporary stay; 3) people who enter urban areas to work, engage in commerce, or offer labor services; 4) floating population who commute on a daily basis; and 5) floating population in transit. For any one locality, the floating population consists of two parts: people who flow in and those who flow out. Their specific statistical limits are similar to those of the originating locality and receiving locality above.

Armed with a definition of floating population and taking into account the objective of the survey as well as limits on our human, financial, and material resources, we may concentrate on studying one aspect (or several aspects) of the phenomenon. Alternatively, we may study different parts of the floating population using different methodologies. But this should not change the definition of floating population.

TRANSPORTATION

Construction of Alataw Pass Crossing Speeds Up

OW1209052690 Beijing XINHUA in English
0123 GMT 12 Sep 90

[Text] Urumqi, September 12 (XINHUA)—China is stepping up construction of the Alataw Pass crossing point in northwest China, which will be one of China's important gateways to Europe after the new "Eurasia Continental Bridge" railway link opens.

Last June the State Council, China's highest governing body, approved the establishment of the Alataw Pass transit point, where the Soviet and Chinese sections of the new Eurasia railway will be connected.

The central government and Xinjiang Uygur Autonomous Regional Government have decided to invest 20

million yuan (over \$4 million) in setting up management offices for various purposes, which are expected to go into operation next year.

Situated in the Mongolian autonomous prefecture of Bortala, the Alataw Pass borders on Kazakstan in the Soviet Union and is 460 km from Urumqi, capital of Xinjiang.

At present, nearly 2,000 construction workers are working under pressure at the pass.

According to an overall plan approved by the local government, the transit point will cover 4.2 sq km, plus a 2.8-sq-km economic development zone, and have a population of about 10,000 in the near future.

It is expected that 3.08 million tons of goods will transit the pass every year.

And between the port and Urumqi two passenger trains will run every day from opposite directions.

Beginning July 1992, two international passenger trains every week will run from opposite directions between Moscow and Beijing, according to the plan.

AGRICULTURE

Vice Minister Delivers Soybean Production Directive

SK2109111790 Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 20 Sep 90

[Text] Wang Lianzheng, vice minister of agriculture, delivered a speech at a meeting held in Harbin on 20 September, in which he stated that the current situation in soybean production this year is grim and that it is imperative to put the soybean production in a proper position so as to reverse the slump trend of soybean production.

In his speech, Wang Lianzheng stated that soybean occupies an important position in the livelihood of the people across the country and in developing the national economy. Of 30 provinces, municipalities, and autonomous regions throughout the country, except for the three prefectures of Heilongjiang Province, most localities are unable to be self-sufficient in soybean supply and are suffering serious shortages. Wang Lianzheng pointed out that it is correct for Heilongjiang Province to establish technical cooperation with Illinois State University of the United States to put on a demonstration of planting soybean crops on 1,000 mu of farmland with the designed per mu yield of 200 kg at Yongchang village in the Songhuajiang township of Bayan County. The acreage of soybean-crop farmland will increase to 600,000 mu this year. The state farms in the province showed a more than 10 percent increase in soybean output by popularizing the method of planting soybean crops along three ridges. The third brigade of state farm No. 850 scored a high record of 200-kg per mu yield in its

3,000-mu soybean fields in 1989. Liaoning, Jilin, and Jiangsu provinces have also established production groups of achieving a high yield of soybean and fostered high-yield typical cases in this regard, thus, bringing about broad prospects for the development of soybean production.

In his speech, Wang Lianzheng stated that along with the development of trade with the Soviet Union, the demand of soybean will show a large increase. Therefore, we should regard Xinjiang Autonomous Region, the Sanjiang plain of Heilongjiang Province, and the Liaohe delta as the key development zones of soybean production. During the Seventh Five-Year Plan period, the state has built the bases of soybean production in northeast China. During the Eighth Five-Year Plan period, we will also build a series of bases in the five soybean production zones in northeast China, in which we will adopt the mutually-beneficial method in funds and materials to build the bases into high and stable yield farms of soybean production. Meanwhile, we will also launch an emulation drive of soybean production in the demonstration zone so as to bring about an overall or large-scale increase in soybean output.

Local Barriers Block Grain Purchases, Sales

90CE0477A Beijing JINGJI CANKAO in Chinese 9 Aug 90 p 1

[Article by correspondent Wang Ting (3076 1694): "Demolish Barriers to Grain Purchases, Sales"]

[Text] Some people say that "difficulty selling grain" is distinctly regional and mostly concentrated in northeast and north China, and in the mid and lower reaches of the Chang Jiang. They suppose that the unbalanced geographic distribution of grain is one of the reasons for "difficulty selling grain." A little analysis will show that the unchangeable geographical distinction between producing and consuming areas suggests that what should be a unified market has been chopped up. It is the "barriers" that each jurisdiction has erected that have damaged and restrained the formation and development of grain markets.

"Barriers" in grain purchases and sales inflict worse casualties on markets than barriers in industry. The reasons are two: First, the "barriers" in grain purchases and sales do not protect local markets. Instead, the direct closing of markets is their main feature. In recent years, countless instances have occurred of banning purchases, banning sales, and banning transportation being the cause of market fluctuations. Actually, these were all cases in which local governments used administrative methods to stem a rational market flow along the various links of grain production and sale. Second, because of the overall shortage of grain supply, the state formulated a series of rules and regulations about the buying and selling of grain in which government actions were dominant. Once they operated in conjunction with local market blockade policies, the "barriers" became stronger.

The above situations result from the fixed contract grain procurement and negotiated purchase price "dual track system," as well as the inter-operation of the financial contracting system and the system of dividing revenues and expenditures between the central and local governments and holding each responsible for balancing its budget. They channel the flow of grain into a very unnatural channel. Producing areas have low input and high output, and marketing areas have high input and low output. For every additional .10 yuan earned in a producing area, a marketing area has to provide a small subsidy out of its own resources. Driven by the benefit motive, producing areas use departmental monopolies to create shortages in order to jack up prices. Marketing areas use fixed supply and restriction of demand to create surpluses in order to reduce government financial subsidies. The behavior of the two jeopardize the balance between supply and demand causing repeated grain market disturbances.

It was intended that the "dual track system" would use parity and negotiated prices to bring markets into being for an ultimate freeing of grain prices from control. This plan turned out to be unworkable, and had the following disadvantages: 1) The state's delegation of authority to local government finance departments caused a sharp weakening in ability to regulate and control grain. A 0.12 yuan per kilogram subsidy for an in-shipment on which the actual price difference was about 1 yuan was grossly inadequate. Furthermore, jurisdictions were not sufficiently strict in enforcing command plans, so the state's ability to hold the grain market in check was virtually nil. 2) Because of various limiting factors, city residents continued to enjoy state protection, which placed them outside markets. The peasants were actually excluded from the markets. Because comparative benefits repeatedly vanished into a price decline trough, and because peasants sustained a loss on the fixed procurement portion of the grain they sold, the peasant's developed overly high expectations about negotiated price grain sales. Fed by unitary policies and information, these universally prevailing expectations induced a common mass behavior, namely either holding back or selling off grain in huge quantities. Following the annual state grain procurement in 1989, peasants throughout the country had more than 7.5 million tons of surplus grain on hand. This was not so much the result of the actual increase in output being greater than statistical projections, but that the peasants sold off huge quantities of the grain they had. For example, in 1989 Anhui Province increased grain output by 1.2 billion kilograms. After excess procurement of 850 million kilograms, the peasants still had 1 billion kilograms of surplus grain for sale. The peasants' holding back and selling off behavior made an already unruly market even more chaotic, and also cause greater damage to the peasants' own interests.

The confrontational situation between production and marketing areas is still continuing. State summer grain procurement is not yet complete and soon autumn grain will be reaching the markets. "Difficulty selling grain" may

become very much more serious, and the slide of grain prices into a trough is a prospect. Both grain departments and personnel concerned generally agree that the ultimate solution to this "difficulty selling grain" will be for the state to take responsibility for interest and storage fees. They believe that a summarization of the lessons of experience of recent years in grain procurement and marketing requires the following improvements in the prevailing procurement and marketing system:

Because price restrictions on grain cannot be removed in the short term, and because of the special significance of commodity grain, the various problems that the "dual track system" occasions must be conscientiously solved. Specifically, the excessive expansion of the gain and loss relationship between producing and marketing areas has to be changed. State techniques for regulating and controlling the purchase and marketing of grain have to be bolstered. A state controlled wholesale marketing system able to exert strong restraints on market fluctuations that includes the establishment of a risk reserve fund and the building of state monopoly grain warehouses has to be adopted, and state monopoly firmly employed to supplant local government or department monopolies.

Strict prohibition of local government use of noneconomic methods to stamp out market trading; adoption of effective preferential measures to expand the presence of country fair markets, and use of real supply relationships and price levels accurately reflected in grain supply and marketing to augment the lack of principal channels.

Appropriate lengthening of the grain production chain, reviving and developing grain processing industries, and use of tax levies to regulate the speed and scale at which grain is transformed.

Encouragement of trading in grain futures, providing genuine preference in bank interest terms and government financial subsidies.

In short, reform of the grain procurement and marketing system should be supplemented and coordinated by the state, local governments and individuals, and not opposed by production and marketing areas at the common local government financial level.

Analysis of Price Parities Between Hogs, Grain *90CE0344A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 5, 20 May 90 pp 78-80*

[Article by Wang Ping (3769 1627) and Song Qing (1345 7230) of the Urban Social and Economic Investigation Group of Anhui Province: "On the Necessity and Feasibility of Smoothing Out the Price Parities Between Hogs and Grain"]

[Text] The state has adopted a series of measures over the years to develop hog production, enliven the market, increase the supply, and stabilize pork prices. But driven by many irrational factors, China's hog market has fallen into a strange "hard to sell-hard to buy-hard to sell" cycle

and the retail pork market has witnessed a periodic "decrease-increase-decrease" price cycle. The most fundamental cause for such an unusual change in the hog market is the chronic distortion of price parities between hogs and grain. The historical changes of price parities between hogs and grain in Anhui Province can prove this point.

The Third Plenary Session of the 11th CPC Central Committee marked a prominent line of demarcation in the evolutionary process of the price parities between hogs and grain in Anhui Province. It divides the history into two contrasting periods in regard to price developments, production situation, and marketing situation. During the first period—from 1950 to 1978—the procurement price of hogs was fairly low, about 1.2 yuan per kg. During the same period, the price of paddy was also fairly low. The price ratio between hogs and grain was maintained roughly at 1:4.5 which is basically rational. In the latter part of the first period, especially during the 10-year turmoil, grain price was adjusted upward while hog price remained unchanged for years. The amount of paddy exchanged for every 100 kg of hogs was reduced by about 70 kg as compared to the previous years. Farmers' enthusiasm for raising hogs declined, showing the first sign of difficulty in buying hogs. However since free market was not allowed at that time, administrative means were intensified to adjust the retail market price and the procurement price of pork in different directions. As a result, the prices were stable under the restraint, and the price ratios between hogs and grain were distorted, thus sowing the seeds of later pork price fluctuation. During the second period—from 1978 to present—the hog market fluctuated continuously. Although the state raised the procurement price of hogs every year, the "hard to sell-hard to buy-hard to sell" cycle continued. Guided by the irrational price parities, the pork market plunged into a difficult situation. In 1979, the state raised the procurement price of hogs to about 130 yuan per 100 kg which could exchange for 534 kg of paddy. Soon hogs were hard to sell. After that, the state enforced a policy to increase the price of above-quota grain procurement. As a result, the actual average price of grain was raised substantially. One hundred kg of hogs could exchange for only 396 kg of paddy. Distorted price signals dampened the farmers' new enthusiasm for raising hogs. Hog production stagnated. Soon came the difficulty to sell hogs. In 1985, the state abolished the unified hog procurement system, adopted the contract procurement system, eliminated the unified national fixed-price system, implemented the state guidance-price system, and injected the market regulation mechanism into hog production and circulation spheres. During that period, the average guidance price of hogs in Anhui Province was 160 yuan, and 100 kg of hogs could exchange for 510 kg of paddy. The price parity between hogs and grain was relatively reasonable. Hog production began to pick up. But in the latter period of hog price decontrol, the price parity between hogs and grain became imbalanced again due to various factors including increased profits for hog farmers, incomplete market mechanism, and weakening macroeconomic regulation and control measures. In 1988, 100 kg of hogs could exchange for 568 kg of paddy, 172 kg more than the

period before 1978. The fluctuation cycles of hog market was shortened but the frequency of fluctuation increased. The excessive slant in the price parity between hogs and grain made it impossible to avoid another new round of difficulty to sell hogs. In 1989, the price parity between hogs and grain became more irrational. In the first half of 1989, the price ratio between hogs and grain was 1:3.9, hitting the lowest point of history again. Hogs were hard to buy on the market. The distorted price signal reached the sphere of hog production and then immediately bounced back to the retail pork market as shrinking operation and production slide. Under the direct influence of production situation, retail pork prices faced the danger of substantial increase as well as the reappearance of another new round of "difficulty to sell hogs." In the second half of 1989, hog procurement price began to pick up, rising from 323 yuan per 100 kg in June to 374 yuan per 100 kg in November. From July to November, the price parity between hogs and grain climbed back to 1:4.47 and tended to rise further. This vicious and "strange cycle" of hog production where "hard to sell" changes to "hard to buy" and then back to "hard to sell" is seriously restricting the coordinated and stable development of hog production and hindering the growth and perfection of the market mechanism. Furthermore, it has resulted in the fluctuation of retail pork market and the instability of pork price. So it is imperative to smooth out the price parity between hogs and grain.

The analysis of historical data on the price parities between hogs and grain of Anhui Province shows: When the price parity between hogs and grain was lower than 1:4, the number of existing hogs declined, pork supply was short on the market, retail price went up, and the hog market was characterized by difficulties to buy hogs. When the price parity exceeded 1:6, the number of existing hogs increased, the pork market was saturated, retail prices dropped, and the hog market was characterized by difficulties to sell hogs. When the price parity remained around 1:5, the production of hogs developed steadily, the supply and demand of the market was basically balanced, and pork prices were relatively stable. Because of this, it is more appropriate to keep the rational price parity between hogs and grain, namely the balanced price parity, between 1:5 and 1:5.5. This characteristic was more prominent during the period when pork prices were decontrolled and hog production and sales were regulated by the market. At the current stage, the degree of intensive hog production is very low in China. And 90 percent of pork on the current market comes from small farmers' households. These small producers raise hogs mostly as sideline production. Generally, each household raises only one to two heads. There are 180 million agricultural households throughout the nation. They each do things in their own way. However, their way of getting information and their process of reacting to price stimulation are extremely similar. Moreover, many agricultural households do not have their own management ideas. They receive the price signal of the market through intuition. They base their decisions to expand or reduce production scale on the comparison of prices with previous years or with similar products in neighboring areas. Usually when the price parity is rational

or higher than the balanced point, farmers' enthusiasm for raising hogs would soar and pork prices on the market would drop. Otherwise, enthusiasm would decline and pork prices would soar. This shows that in real economic life, hog production is controlled by an "invisible hand." So, whether or not the price parity between hogs and grain is rational directly affects the stability of pork prices on the market. Failing to readjust the procurement prices of hogs and grain simultaneously and at the same rate is an important factor contributing to the irrationality of price parity. Since 1982, the state has raised the procurement prices of grain several times. The procurement price of Anhui's long-grained nonglutinous rice in 1989 was nearly 7-fold higher than that in 1982. During the same period, the procurement price of hog increased only 1.9-fold.

Investigation also shows that increasing production cost and declining profits of hogs have further distorted the imbalanced price parity. According to a provincial investigation of production costs and profits, in 1988 the production cost of each head of fat hog increased 1.03-fold as compared to 1985 while the production cost of paddy increased only 59 percent. An investigation of some hog production areas in Anhui Province shows that comparing the first half of 1989 with that of 1985, the prices of mixed fodder, rice chaff, wheat bran, soybean cake increased 48 percent, 33 percent, 1-fold, and 2-fold respectively. The cost of fodder farmers need to raise a fat hog is higher than the income they earn from selling it. Currently, to raise a 100-kg hog, farmers need to spend 302.5 yuan on fodder, computed on the assumption that 5.5 kg of fodder is needed for each kg of hog. In addition, they need to spend about 10 yuan on inoculation and medical expenses and 100 yuan to buy a piglet. They need to spend 412.5 yuan as production cost. But they can get only 374 yuan of income for selling a hog, losing 38.5 yuan, not even counting the labor investment. Farmers can get a net income of over 100 yuan from raising 10 ducks a year and 1,000 yuan from raising a milk cow. They can get over 40 yuan of income by just slaughtering a hog. The great disparity between the input-output ratios of raising hogs and raising poultry and growing grain has seriously dampened farmers' enthusiasm for raising hogs, thus resulting in production slide of hogs and instability of pork prices on the market.

The above analysis shows that the key to stabilize the pork market is to smooth out the price parity between hogs and grain. Frequent price readjustments tend to result in market fluctuations and the price spiral of hogs and grain. Besides, the price increase of hogs has a strong delayed effect. The only way to get out of the "strange cycle" facing China's hog production and achieve a benign cycle of hog production is to proceed from the reality of the supply and demand problem of pork in China, increase farmers' profit level in raising hogs, consider smoothing out the price parity between hogs and grain as the point of breakthrough, and study and work out new policies and countermeasures.

1. Establish the relation of price parities between hogs and major farm and sideline products such as grain. Smoothing

out prices to establish a rational price parity between hogs and grain and fodder is very conducive to the development of hog production. However under China's current economic conditions, it is difficult to rely completely on the law of value to guarantee the average profit level for hog raisers. Establishing the relation of price parities between hogs and major farm and sideline products such as grain to ensure that the increase of hog production cost does not exceed the increase of farmers' net income and that the profit margins of major farm and sideline products including hogs, grain, and poultry are roughly the same will substantially benefit the development of hog production, the balance of market supply and demand, and the stability of pork prices on the market. We may consider adopting both fixed and floating price parities with floating prices as the basis. The upper and lower limits of the floating price parity may be used as the ceiling and the minimum protective price during the period of market fluctuation. Of course, establishing the price parity system is not going to solve the problem once and for all. In accordance with the changes in the production cost of hogs and the supply and demand situation of the market, we must readjust the price parity in a timely and appropriate manner to keep it always in the best shape. When the production cost of hogs increases too much and the procurement price of grain is raised too high, we should formulate a rational parameter for the readjustment of price parities, use it to supplement the price parity between hogs and grain, and give the relation of price parity some flexibility.

2. Compile "pork consumption index" and "hog raising cost index." Currently, the hog market is regulated basically by market mechanism. Existing objectively is the contradiction between small production and a large market. Scattered and independent hog producers have no way of getting systematic and accurate market information, nor could market organizers understand production situation in a timely and comprehensive manner. It is necessary to consider compiling "market pork consumption index" and provide seasonal feedbacks to farmers to help regulate the scale of hog production. It is also necessary to compile "hog raising cost index" and promptly readjust the procurement price of hogs to protect farmers' enthusiasm for raising hogs and ensure the steady development of hog production. This will protect farmers' hog-raising profits from the undesirable influence of market fluctuation or reduce such influence to stabilize pork prices.

3. Implement the hog price protection system and establish the hog production risk fund. Pork price is the product of supply and demand contradiction. The supply curve represents the interests of producers and the demand curve represents the interests of consumers. When supply and demand are balanced, the interests of producers and consumers are both satisfied and pork prices are stable. When supply outstrips demand, producers suffer losses. When demand outstrips supply, consumers suffer losses. The supply and demand contradiction is dominated by the supply side. However, we pay great attention only to protecting consumers' interests. Artificially controlled

increase of pork prices has seriously undermined producers' interests, resulting in a shortage of pork supply. The good intention produced opposite results. We should know that the price flexibility of pork supply is relatively great. A slight increase in pork price, especially the procurement price of hog, can bring about a fairly large increase in the supply of pork. Our biggest mistake happens to be the fact that we have long put ceilings on the prices of major farm products including hogs but we have never enforced minimum protective prices. Ceilings on pork prices protect in formality urban consumers' interests, but in reality they leave farmers with no profits or very little profits. A few years ago, after pork prices were basically decontrolled in the rural reform, due to the lack of the minimum protective price system and corresponding protection fund, people rushed to buy when there was not enough pork and nobody was interested when there was plenty, seriously dampening farmers' enthusiasm. Because of this, the best way to protect hog production in China is to gradually eliminate price ceilings, adopt minimum protective prices, establish hog production protection fund, and encourage and protect farmers' enthusiasm for raising hogs. The lowest standard of protective price is to ensure that hog farmers do not lose money and make a little profit. When market price drops below this protective price, the state should offer to buy as many hogs as there are at the protective price. Of course, when we implement the hog protective price system, the state's loss is obvious, but concrete and limited. It is smaller than the loss caused by the increase of financial subsidy as a result of increase in pork prices. Besides, it does not have the side effects of complaints from the residents as a result of pork price increase. Therefore, the positive significance of protective price is obvious and clear.

Anhui Cotton Area

40060061D Hefei ANHUI RIBAO in Chinese
23 Aug 90 p 1

[Summary] This year the cotton area in Anhui Province is 4,540,000 mu, an increase of 755,000 mu, or 20 percent over 1989.

Hunan Fruit Area

40060060F Changsha HUNAN RIBAO in Chinese
10 Aug 90 p 1

[Summary] According to the Hunan agricultural department, the fruit area is 1,400,000 mu, and estimated output is 210,000 tons.

Sichuan Releases Figures for Cotton Harvest

HK2509084490 Chengdu Sichuan Provincial Service
in Mandarin 1015 GMT 24 Sep 90

[Excerpt] According to figures compiled by the departments concerned, our province has reaped a bumper harvest of cotton this year following reduction of output over the past two years. The total output is anticipated to stand at 99,000 tons, an increase of more than 10 percent over last year.

The increased production has resulted mainly from effective measures adopted by governments at different levels of cotton-producing areas, including sufficient supply of materials, successful popularization of science and technology, early assignment of area sown to cotton, and increased purchasing prices. All this has aroused the enthusiasm of cotton growers in production.

It is estimated that the assigned area sown to cotton this year reached 1.85 million mu, 100,000 mu more than last year; and the area sown to cotton covered by plastic sheeting extended to 600,000 mu, an increase of 20 percent over the previous year. [passage omitted]

Large Saltworks Project Begins in Sichuan

OW3108184890 Beijing XINHUA in English
1403 GMT 31 Aug 90

[Text] Chengdu, August 31 (XINHUA)—Construction of the Chuandong Saltworks, China's largest well salt project, has started in Wanxian City, Sichuan Province.

This key state construction project for the Eighth Five-Year Plan (1991-1995) will need a total investment of 180 million yuan and is designed to produce 300,000 tons of salt a year.

According to the plan, the saltworks will go into production in August 1997. It will provide table salt for people in the middle and lower reaches of the Yangtze River and salt for industrial purposes. Some of its products will be exported.

Xinjiang Second-Largest Beet Sugar Producer

OW2109092290 Beijing XINHUA in English
1850 GMT 20 Sep 90

[Text] Urumqi, September 20 (XINHUA)—Xinjiang Uygur Autonomous Region, in northwest China, produced 220,000 tons of beet sugar this year, becoming the second largest beet sugar producer in the country.

Since the State Council designated the region as a sugar beet producing center in 1988, investments of 100 million yuan have been used to improve fields with low or middle yield.

The land planted in sugar beet has increased from 41,300 ha to 66,600 ha, and the total sugar beet output has increased from 1.1 million tons to the current 2 million tons.

During the Seventh Five-Year Plan—from 1986-90—the regional government spent 400 million yuan building six sugar refineries. The 11 refineries in the region now have a combined annual production capacity of 300,000 tons.

Xinjiang Cotton Sent to Hunan

40060061B Changsha HUNAN RIBAO in Chinese
10 Aug 90 p 2

[Summary] On 26 July, textile plants in Hunan Province received 200 tons of cotton from Xinjiang.

'Settling of Accounts' After Tiananmen Continues
90CM0327A Hong Kong PAI HSING [THE PEOPLE]
in Chinese No 220, 16 Jul 90 pp 28-29

[Article by Ou-yang Wei (2962 7122 4850): "'Criticism' Organizes Teams, Heroes of Cultural Revolution Reemerge"]

[Text] Chinese Communists' Settling of Accounts After the Political Movement Just Unfolding

The CPC Central Committee has sunk to the level of telling lies and doing evil deeds. Last year on television Li Peng declared to the whole world: We absolutely will not settle accounts when the movement is over. But from the moment he said that, not only have they been settling accounts, but settling accounts after the movement was over is now unfolding. The first to feel the brunt, of course, were the intellectuals. Two-thirds of the RENMIN RIBAO people have been purged and even the financial cadres who are not involved in politics have been replaced. When the first shot was fired at Tiananmen, RENMIN RIBAO director Qian Liren [6929 2621 0088] and editor in chief Tan Wenrui [6223 2429 3843] silently went into hiding and are still "recuperating."

Initially, Yuan Mu advocated abolishing RENMIN RIBAO and replacing it with the NCNA's [New China News Agency] JINGJI CANKAO, and others subsequently suggested putting it under control of the Army. Deng Xiaoping felt that it was not under military control during the time of the gang of four and the image of military control was very bad now, so the idea was abandoned. Nevertheless, many of the people who are now on party newspapers came from JIEFANGJUN BAO, so one could say that they were under "quasi-military control." In the sweltering days of June in Beijing, RENMIN RIBAO vigorously criticized Hu Jiwei [5170 4921 0251]. Hu Jiwei's speech was printed for everyone. An important part of it was his speech at the National Writing Competition held last May in Chengde. He fully supported the students' actions. When the materials were made public, on reading them people couldn't help but look at each other in blank dismay and were rendered speechless—every sentence was the truth, every sentence was right! As a result, at a high-level criticism meeting, everyone looked around and avoided discussing this topic so that the leadership was annoyed, with the result that the criticism meeting ended without result. Many people anticipated that Hu Jiwei couldn't avoid being expelled from the party. The object of another special RENMIN RIBAO investigation was Wang Ruoshui [3769 5387 3055], and an investigation team had already been created. Since Wang Ruoshui had been expelled from the party, he didn't have to participate in party meetings nor could he be evaluated by the standards applied to party members. However, because he had participated in the demonstrations and he was viewed as a thorn in their side and they wanted to settle accounts with him, at least to indicate that the new team had pledged its loyalty to party and country. It should be pointed out that the critics were able to do the job with

ease because they had experience. Cups of tea in hand, they vigorously carried on a discussion they did not understand and others didn't understand either and then reported to the leadership that they had accomplished their task.

Yang Xianyi [2799 2009 4135], the famous patriotic intellectual, model party member, and translator, was expelled from the party. For the past several decades he has been perfectly orthodox and has done many things for the party. Last year he gave a speech supporting the students that the BBC rebroadcast and which was subsequently published. He himself felt this was not a good idea and wrote a report asking to resign from the party. Strangely, one can only join the Communist Party, one cannot resign from it. Thus, they held a meeting at which he was fiercely criticized and then declared expelled from the party. All of Yang Xianyi's cherishing of tradition was wiped out and he became an ordinary commoner. He and his English wife are now still devoting their energies to translating.

Li Rui [2621 6904] wrote *On-the-Spot Report of the Lushan Conference*. It was decided at a higher level that he and Li Chang [2621 2490], Wan Runnan's [8001 3387 0589] old father-in-law, were not to be registered as party members. At a plenary session of the Advisory Committee not long before, Hu Qiaomu had said that since party members were reregistering, there were some that should not be allowed to register. Yu Qiuli [0151 4428 6849] then said that Yu Guangyuan [0060 0342 6678] and Du Runsheng [2629 3387 3932] should not be registered. In this way, it was decided at higher levels that the four above-mentioned persons would not be permitted to register in the party. When this material was made available to the eight old cadres, Chen Yun [7115 0061] wrote a long commentary, concluding that "Our party has heretofore protected old party members..." Thus, Li Rui, Li Chang, Yu Guangyuan, and Du Runsheng were permitted to register. This is an example of the fact that the fate of the Chinese people is held in the hands of a few.

In the early eighties, Xie Wenqing [6200 2429 3237], former deputy head of the Central Film and Television Department, had been chief of the Hong Kong bureau of the NCNA. Because he took part in a demonstration last May, and because after the shooting on "4 June" he wore black gauze armband all day, he was placed under party observation for a year. People have become aware of a truth: if one wants to be an excellent party member, it is very easy, just stay home and play mahjong.

The most unfortunate thing is that the university students who should have graduated last year have been sent down for a year to most arduous posts for "tempering." Some were assigned to steel mills to be blast furnace men. Now university graduates are manual labor, high school graduates are technicians, the illiterate are leaders. This is division of labor according to "being obedient" and not according to ability.

Most obvious is the examination of and restrictions on people going abroad. All persons going abroad on public business, private business (including visiting relatives), or to study must obtain formal written certification from the personnel department of their organization or, if they are unemployed, from their neighborhood residents' committee saying that 1) last year during the disturbance or the pacification period they did not participate in "illegal" demonstrations (on the mainland, all demonstrations are illegal except those organized by the government); 2) they have never participated in beating, smashing, and looting; and 3) they have never participated in illegal organizations. One can obtain a form from the Public Security Bureau only with such certification. After the form has been completed, the organization in charge again writes that the applicant did not participate in the demonstrations, and so on. In Beijing alone, several million people participated in demonstrations and these people are not permitted to go abroad even to visit relatives. When will this account be settled?

The Chinese Communists boast of the superiority of their socialism, but even the Chinese Communists themselves probably don't believe this, otherwise why do the children of high-level cadres go abroad, while students and intellectuals are repeatedly blocked from going abroad? It is completely unreasonable that students who were to have graduated can only go abroad for advanced study after five years of service. In March of this year there was another new stipulation that retired personnel may not respond to invitations to go abroad to attend meetings, participate in academic discussions, and so on. At the same time, all 60-year-old male intellectual workers and all 55-year-old female intellectual workers were uniformly retired, and some female intellectuals who are professionally experienced and had just begun to make achievements and who were invited to attend international symposia were unable to go because they had reached the age of 55. Not long ago the Chinese Communists also issued a document that all who were going abroad for advanced study at their own expense could apply only after they had resigned their positions. This is because it is still uncertain at this time if their application will be approved and if their visas will be approved. Resigning first is a major threat to these people. In addition it also stipulated that they had to move out of their housing. On the mainland, people in the cities generally live in public housing, so once a student who wishes to provide his own support for study abroad applies, he first loses his job and his means of livelihood, not to mention that the application process is very long. The threat of losing one's housing is even greater. This is the same as wanting a self-supporting student abroad first to find a way to take care of his family or have the entire family go abroad. For poor intellectuals in socialist China, this is equivalent to not permitting self-supported study abroad.

Beijing recently convened a united front meeting and the CPC Central Committee leadership bragged that students studying abroad who returned to China to visit

relatives were free to come and go. In fact, after they returned to China, many people holding U.S. green cards could not return to the United States. It is possible enter and exit the United States freely if one holds a green card, but it is not necessarily the case that one can enter and exit China freely. Not long ago, after a famous artist's son who held a green card returned to the mainland, he was not permitted to go to the United States. Going back on their word is the conclusion one reaches from the actions of the CPC Central Committee.

Brave Hero of "Cultural Revolution" Swaggers Around

After "4 June," personnel changes were frequent, but the pattern was clear. The most evident was that when one reached a certain age he stepped down. The common people also have a saying for this: Now those in their eighties are gathering those in their seventies to see off those in their fifties and sixties who are retiring. Of course, retirement is a method and not statutory, because nothing is more obvious than the "homecoming brigade" (as the common people call them) who retire and then go back to work. For example, He Jingzhi [6320 2417 0037], who is over seventy, retired and then returned, or Deng Liqun [6772 0500 5028], who, although he has not appeared in public, has recruited heroes of the Cultural Revolution and organized a group to write critical articles. Another type is those who "retired from leadership positions" and then became more active, as in literary and art circles. Forty-year-old Liu Xinwu [0491 1800 2976] stepped down, and 70-year-old Liu Baiyu [0491 4101 5038] ascended. What is more remarkable is that Lu Ying [7627 5391], editor in chief of RENMIN RIBAO during the Cultural Revolution, who became famous for a misstatement reading "Mexico" as "Heixico" [that is, he read the first character in the Chinese transliteration of Mexico, which is pronounced "mo," as "hei," which means "black" and whose written form is similar to "mo," thus indicating that his literacy level is very low, or that he just misspoke] is now vigorously writing articles criticizing Hu Jiwei. The current bureau chief naturally enjoys this, but Lu Ying's educational level is so low that for him to criticize Hu Jiwei makes one want to split one's sides laughing. So they have given him a penname to conceal his real name.

The most threatening person is Xu Weicheng [1776 1919 6134], current deputy chairman of the Propaganda Department's Standing Committee, whose word is law in propaganda. The Central Television Station was broadcasting two television series most loved by the common people, *Tanhuameng* [Epiphyllum Dream] and *Jinsanjiao Huanghou* [Empress of the Golden Triangle]. A word from him and they were stopped in midcourse without explanation. Everyone thought it strange. These two television series had already been shown in local areas in their entirety so why were they canceled when they got to Beijing? Subsequently, it became clear that they had to be canceled suddenly because of a directive from Xu Weicheng. The lack of explanation to the audience on the part of the broadcaster could only create bad feelings.

Xu Weicheng had been a member of the gang of four writing group and early on had criticized Deng Xiaoping as "garbage." After "4 June," Xu Weicheng played the same old trick. When punishment began, those to be punished were in positions of authority, so, in a fit, they handed the collection of Xu Weicheng's earlier criticism of Deng Xiaoping to the Standing Committee of the Politburo. After Jiang Zeming received it he said, "Oh, I didn't know that earlier!" People felt that if Deng Lihou's writing group didn't repeat any of the results of a writing group not long ago, it is possible that they might release Yao Wenyan early or at least ask him to stage a comeback.

On the mainland, the new corruption is making up for some old corruption. Heroes of the Cultural Revolution are reappearing and a new atmosphere is forming which people think is polluted and becoming more serious daily.

Beijing People Will Not Forget "4 June"

Beijing people will never forget the tragic day, "4 June." The blood shed last year has not yet dried; the flamethrowers turned people into ashes and bones; the innocent who were murdered must be reported as having died of illness, otherwise they could not be cremated; that kind-hearted doctors concealed injured common people just as wounded 8th Route Army personnel were hidden long ago is very touching; those whose relatives were killed swallowed their tears; an old grandmother, with a tear-filled face came to Beijing University to look for her grandson who has been lost for a year. Everyone hastened to pool their money to buy a train ticket and urged her to go home—her grandson couldn't be found and she shouldn't ask to become a family member of a "thug."

On the night of "3 June," Qinghua University students were shouting that it had been one year. The school gates were closed so that the police cars that came could not enter and the students could not exit, thus avoiding a dispute. More than 1,000 Beijing University students assembled on the campus and demonstrated, repeatedly singing a one-line song: "The Internationale definitely should become a reality." Students who mounted the stage and presented reasonable demands were expelled. At first some reporters took photographs. Later, school authorities relayed an order from higher echelons: If there are other similar situations, participating students will be seized and any reporters present will be beaten! On the night of "4 June," lights were put out in the People's University dormitory and a candle was lit on every windowsill. Students sang sad songs and then threw out "leaflets" on which were written the three words "one year now." Finally, a large group of small bottles were thrown out the windows so that broken glass was over two inches thick on the ground, making cleanup difficult. This prompted the authorities to issue an order prohibiting junk dealers from buying small bottles!

This is Beijing on the anniversary of "4 June." Beginning in March, armed police were also increased, so that in Babaoshan and Wangguo Public Cemetery there were more armed police than there were graves. Afraid that someone would commit murder, there were two armed police stationed back to back at each post. Outwardly they looked imperious but inwardly they were terrified. This is because the common people were no longer their friends, but their enemies. A million troops could publicly massacre common people, but several million or tens of millions of common people could secretly beat isolated soldiers to teach them a lesson!

Gentle Toward the Outside and Severely Increasing Repression Domestically

Now that it is the first anniversary of the "4 June" repression, the Chinese Communist Party Central Committee has done its best to pretend that it is fading from memory and refers to it in a low key manner. "Rebellion" is now called "disturbance." People are continuously being released, but the numbers far exceed the 300 or so Yuan Mu publicly announced were seized. In fact, the hardest thing to forget about the murders is the butchers; the intensity of their emotion is far greater than a badly frightened person. Already in March it was transmitted from level to level that no one was permitted to go to Tiananmen Square. If party members went, they would be expelled from the party, if league members went, they would be expelled from the league. This completely nonsensical edict, this unscrupulous excess will be a standing joke for generations. The Chinese Communist Party that was not afraid of a million KMT [Kuomintang] soldiers, and not afraid of the United States' new weapons, is now afraid of the truth spoken by students; it is afraid of and wants desperately not to hear good advice that is unpleasant to hear, so all it can do is force each person to take a drug to make them dumb. This can only mean that the Chinese Communist Party has lost its fighting strength and has even less appeal; all it can do is maintain its authority by using fascist means. On the eve of "4 June" the anxiety of the CPC Central Committee reached its peak and the agencies of the Central Committee established "contingency groups." The leadership of each ministry, from minister to bureau and department chiefs, was on duty 24 hours a day. On Sunday, 3 June, the party members of many agencies (including hospitals) were all on duty. They preferred to pass the time of day in the office: They were not permitted to stay at home. They were not permitted to wear black clothing or white clothing. Such a nervous order was unheard of even during China's feudal dynasties. The important members of the Central Committee did not dare stay in Zhongnanhai, but moved to a large compound near Yuquanshan in Beijing's western suburbs. There there were many tall old trees so that even airplanes could not find the buildings where they were staying. Many people wondered why the CPC Central Committee, faced with such immanent disaster, had become anxious about themselves to such a comical degree!

The Chinese Communists are cooking up some nice talk and putting on smiles for most-favored-nation treatment and loans, but in fact this is only one of their two hands, or, better, it is only one of two sides. One side is outwardly parading reform and relaxation in an attempt to derive benefit from being moderate; the other side is fascist rule at home and engaging in unscrupulous tyranny.

Oh, Beijing, heart of the ancestral land: the healthy cells will ultimately triumph over the malign tumors.

Critique of Administration of Social Order

90CM0350B Beijing RENMIN GONGAN BAO
in Chinese 20 Jul 90 p 3

[Investigative Report by Yang Zhengfa (2254 2973 4099): "Reflections on the 'Resultant Force' of Comprehensive Administration"]

[Text] How do we conduct the comprehensive administration of social order? This is an often-asked question. Recently this writer went to Baoyin County in Jiangsu Province to investigate. Some new ideas were gained from existing issues. Urban areas which comprehensively treat the social order must emphasize controlling "scatteredness" and work hard to form a "resultant force," and then their efforts to strengthen the overall function and ability of their security mechanism will be more effective.

Since 1988, Baoyin County, despite shortages of manpower, materials, and financial resources, has added 60 security personnel to the law enforcement department and increased allocations of administrative funds by more than 1.16 million yuan. In recent years, law enforcement departments adhered to the policy of severely cracking down on criminal offenses and, in accordance with the requirement of the comprehensive administration of social order, established a law enforcement contingent in the county seat which included both professionals and the masses. Normally, the public security situation in the county seat should have improved significantly. However, in 1989 its criminal cases accounted for 44.2 percent of all the criminal cases in the county, an increase of 91 percent over 1988, while its population accounted for less than 8 percent of the county's total population. Arrests in urban areas accounted for 28.1 percent of all arrests in the county, an increase of 62.5 percent over 1988. These abnormal phenomena and harsh realities forced people to think things over in depth. The major problems are as follows:

First, some "blank spots" exist in the links between urban and rural areas. In recent years, urban areas have expanded constantly and new residential districts have also increased. But neither public security work nor public security organizations have kept pace. The town of Baoyin now has six new districts, including Bianwan and Taishan, but none of these districts has established an administrative or public security organization. The "blank spots" in managing public security have given

offenders a chance to commit crimes. Last year, there were 101 cases of theft and burglary in these districts, accounting for 62.3 percent of all theft and burglary cases in the town.

Second, there are some uncontrolled "gaps" in juvenile education. Of the 171 offenders arrested in the urban area last year, 156 were juvenile offenders under the age of 25, which accounted for 91.2 percent of the total. One of the reasons for this is that schools do not discipline students after class, and factories do not discipline their young workers outside of working hours. Neighborhood committees also do not discipline young people who are loafing about and waiting for jobs. Within these "three no discipline" gaps, some juvenile offenders make trouble out of nothing and end up committing crimes.

Third, there are some security "weak points" within organizations and enterprises. Last year there were 45 cases of internal theft and burglary in work units, an increase of 87.5 percent over 1988. This is because these units stressed economic matters and not preventive security, and did not strictly educate employees. The contract security responsibility system existed only in form.

Fourth, there is a lot of "divergence" in the management of public places and special occupations. Because they have different responsibilities, various administrative departments make different decisions. They cannot coordinate operations, and it is difficult to carry out comprehensive administration of social order. First of all, the department which issues licenses does not supervise, and the department in charge of supervision does not have the power to suspend licenses. Thus measures for rectifying and guarding the social order cannot be implemented. For example, there was a privately-owned motel where prostitution activities were occurring. In the process of cracking down on the illegal activities, the public security department demanded that the motel's business license be suspended. However, the concerned administrative department disagreed and only fined the motel. In addition, there are many channels of examination and approval, which creates some chaotic situations in management. There has been a large increase in the secondhand market in the county seat, with the number of shops increasing from only two ten years ago to 42 at present. Some of the shops are licensed by other townships and open for business in the county seat, while others are branches of township enterprises which lack raw materials and open a secondhand business to "find a little meat for the pot." Some criminal groups also enter the secondhand business and wantonly engage in speculation. Last year, over 80 percent of the industrial materials and products which were stolen from work units were disposed of through privately-owned secondhand shops.

Harsh reality shows that there are two inequalities: stronger security measures have resulted in an improvement in the public security situation, and punishment of criminal activities has resulted in a reduction in criminal offenses.

What are the causes of these two "inequalities?" The problem behind the ineffective security is that there is a shortage of unified coordination in the comprehensive administration of social order.

1. There is an "imbalance" in security consciousness: prosperity is emphasized over security, and hunting criminals is emphasized over preventing crimes. The mentality that stresses economic matters over public security matters is quite common among leaders of administrative bodies and enterprises. They give quite a few instructions on handling public security work, but seldom check up on its implementation. They make many regulations, but seldom check that the regulations are carried out. Some leaders are nominally assigned responsibility for security matters, but they rarely take that responsibility. Within law enforcement departments, there is also the mentality that emphasizes hunting criminals over preventing crimes. They care about handling cases rather than preventing crimes. Take reeducation, for example. Some policemen who have worked in an area for many years are still unclear about the number, activities, and behavior of persons returning from reeducation labor camps, not to mention the work of reeducating offenders. The sense of preventive security is also relatively weak among the masses. Moreover, people dare not fight back against criminals. The "imbalance" in security work objectively indulges criminal offenders and feeds their arrogance.

2. Because responsibilities are unclear, management of security is out of control. On the one hand, it is not clear which body is the leading body in security administration and what its responsibility is. All concerned departments may get involved in the matter, but no one can handle it well. On the other hand, local police stations only handle business within their own area and shift responsibilities back and forth when they handle cases. One night last October, a 70-year-old man caught a thief and handed him over to the police station at the county seat. But when the person on duty heard that the thief had been captured in the north of town, he asked the old man to escort the offender by foot to the police station in the north of town. Finally, there is no clear division of responsibility between rural and urban areas, which has resulted in quite a few disputes over how public security work is handled. Therefore these areas have become "blind areas" in public security work that become major targets of attacks by criminal offenders.

3. The police force is dispersed and security forces are inappropriately deployed. It is not that security forces in the county seat are insufficient, but that the forces are not deployed well. Because work is not coordinated, energy is wasted internally. In March of this year, the police station in the center of the county seat received a

report from a victim who had had 400 yuan stolen at the bus station. While a team of policemen from the station worked hard at their investigation, policemen from the station in the north of town captured the thief. Yet, because the two police stations did not keep each other informed, the policemen from the center of the town were still looking for the suspect while the policemen from the north of town were looking for the owner of the money. The limited police force was wasted by man-made difficulties. As for neighborhood committees and grass-roots enterprises, their public security protection force is also very weak. There are now 22 directors of public security committees in the county seat. All of them are over 60 and are retired workers. Most can only be doorkeepers or run errands. Some factory security protection teams are only there for show, and are called "the cats that don't catch mice." Since the public security force is not placed in needed areas, the large law enforcement contingent in the county cannot play its proper role.

Comprehensive administration of social order has long been recognized. But the results are not as good as expected. Where does the solution lie? This writer believes that we should work on strengthening the overall function of public security work.

Strengthen ideological education, taking stability as the major line, and raise the masses' awareness of public security. Public security work should be taken as a hard indicator of the performance of all cadres.

The key point is to really give effective leadership to public security work by establishing an organizational system which takes local management as its main base.

Consolidate and adjust mass security groups and set up sound public security networks to cover both urban and rural areas. Coordinate city construction and city management to eliminate "blank spots" in public security work. Make the weak points in integrated departments of urban and rural areas the focus of public security work, and design an overall arrangement for treating cities and towns comprehensively.

Enact a contract security responsibility system and promote implementation of the measures of the comprehensive administration program. The responsibility system must be carried out at the county, township, and neighborhood levels. The contract responsibility system, security measures, rules for work evaluation, and methods for reward and punishment should be arranged and implemented simultaneously and in a timely manner. Rewards and punishments must be strict and fair. The comprehensive administration of social order can only be fully utilized after a "resultant force" is formed.

New Features of Handling Abduction Cases
90CM0350A Beijing RENMIN GONGAN BAO
in Chinese 17 Jul 90 p 2

[Article by Yue Shihai (1471 0013 3189): "New Features in Investigating and Dealing With Abduction Cases"]

[Text] Investigating and handling abduction cases is a very difficult job, for the cases are complicated and involve quite a few people. Very often abduction cases also involve places outside the province. Once we start an investigation, we have to face a chain of people in order to find out who is the abductor, the seller, the buyer, the victim, and the witness. If one point among them is not clear, then the case cannot be closed. From April to June of this year, this writer spent two months investigating more than 20 cases in the provinces of Henan, Hebei, Shandong, Shanxi, and Inner Mongolia. From actually handling cases, this writer discovered that there are some new characteristics to handling such cases.

1. Abductors, besides abducting women locally, also abduct people by using the "fishing" method at bus stations or motels outside the county, and then sell the abducted people to others in transit. It is usually hard to find clues for this kind of case.

2. After the abductors are caught, most do not tell the truth. When they have actually sold two people, they usually confess to selling just one. When they have actually made 3,000 yuan from a sale, they only confess to making 1,000 yuan. The names of townships, villages, and buyers that they provide are usually not specific or else purposefully wrong, which prevents you from investigating further.

3. Abductors usually rape the women they have abducted before selling them. In Nanjiang County, for instance, an abductor named Ou Changjiu [2962 7022 0036] abducted and sold six women, five of whom he had raped. In such a situation, we need to seriously pursue suspects and question victims cleverly.

4. It is difficult to find the buyers and even more difficult to find the victims. For investigations outside the region, it is extremely hard to successfully find the buyers and even more difficult to find the victims. Most of the buyers go into hiding, and nobody in the village likes to tell you any real facts. When you go to a village to investigate, they will say that the buyer has taken the victim with him and has already gone to other places to look for jobs, or that the buyer has gone with the victim to visit his relatives. In some villages you can still meet members of the buyer's family, but in other villages

people simply tell you that there is nobody at the buyer's home. In a village in Shandong Province, people told us that both the buyer and the victim were at home, but when we got there, we could not find either of them. We went to the house three times altogether, but still we failed to meet either of them.

5. It is difficult to seize dealers or to find witnesses. Usually abduction dealers move around outside the province, and it is very difficult to capture them. On the other hand, it is also difficult to find witnesses to the bargaining activities between buyers and sellers. Some may have gone to work in other places or to visit relatives and friends.

6. The local village cadres do not support us. When we arrive in a village, we must first look for the party secretary and the village head in order to get their support. However, things often work out differently than we wish. Some village cadres have ambiguous attitudes, and most do not like to get involved in our investigations. If somebody can point out where the buyers or dealers live, that is good enough. In other villages, cadres just say that the people we are looking for are not at home, or they will even refuse to receive us because we are not accompanied by people from the local Public Security Bureau. Without help from local village cadres, we cannot do anything. If we handle things poorly there, we may still be besieged by local people. Sometimes we have made many trips and spent a great deal of energy, but still could not make any progress in our investigation. That really makes us very frustrated.

Can we put all the blame on local village cadres?

In Shandong Province, a village cadre told us the real reason that local village cadres did not want to help us. He said that local village cadres also have their own problems. If they told the truth and helped us, later they themselves would face serious retaliation. Their young crops would be destroyed, their houses damaged, and their things stolen. When we heard this, we felt bitterly disappointed...

The above-mentioned are all new problems and characteristics of investigating and handling abduction cases. Summing up these characteristics will allow our police to mentally prepare beforehand to deal with these kinds of cases and to avoid acting blindly.

Forces Require Flexible Communications Support

90CM0387B Beijing JIEFANGJUN BAO in Chinese
28 Jul 90 p 2

[Article by Chen Deqing (7315 1795 3237) and Li Yumei (2621 3768 5019), of the Jiangsu Zhongdui Headquarters: "Increase Mobility of Communications Support"]

[Text] The constantly changing nature of rapidly developing incidents is what determines that those in charge of communications for mechanized forces must continually strengthen their ability to deal flexibly with situations. Only in this way will they be able to link up with other stations, transmit information quickly, and avoid missing out on opportunities in battle.

These writers feel that an important step in the effort to strengthen the flexibility of communications is to formulate emergency communications plans. Public security organs, the People's Armed Police, the People's Liberation Army, and the militia frequently work together to deal with rapidly developing incidents. If a comprehensive communications plan is not worked out in advance and the network does not function properly, it is unlikely that information will be transmitted clearly between different units, and it will inevitably affect the ability of unified command to act in a timely manner. For this reason, an emergency communications plan should be formulated in advance for the mechanized forces that will enable these troops to deal with social order problems, various geographical conditions, and coordinated operations involving more than one region. In this way, communications work can be carried out smoothly according to plan no matter when or where a rapidly developing incident occurs.

In order to increase the flexibility of communications work, we must also have clear regulations governing communications tasks. In general, the following tasks should be clearly identified: 1) A communications hub should be established wherever the forward command post is located. 2) The communications detail should take responsibility for relaying combat information between the forward command post, the base command post, and the various commanders. 3) It should relay information to all units participating in battle. 4) It is responsible for protecting communications equipment and keeping it well maintained. In accordance with the requirements posed by specific tasks and the needs of wartime communications work, all communications equipment used for dealing with rapidly developing incidents must be stored in a specific location, and it must be maintained according to a regular schedule so that it will always be in good condition. Also, in accordance with the emergency communications plan, there must be a clear division of labor among the personnel in the communications detail so that "a nail remains a nail, and a spike remains a spike."

The only way to increase flexibility of communications is to train. Communications units must go through arduous training under various conditions closely

approximating actual battle, and they must strive to improve skills in three areas. First, they must improve their ability to respond quickly to orders and to move with the troops when they advance. Training should focus on the time of an incident, the site of an incident, the implementation of the plan, the number of personnel dispatched, and the types of equipment to be transported. Training should enable troops to perform their task successfully and quickly, and should enable all communications support personnel to simultaneously receive orders and begin preparations as soon as a situation arises. Second, we need to improve the speed at which communications networks are set up at the scene of an incident. In accordance with the communications support plan, we need to train arduously for setting up broadcasting stations, antennae, and field combat telephone systems among mountains, rugged hills, waterway networks, and tall buildings. Third, we must improve our ability to communicate quickly after combat has broken out. This must be done so that communications support personnel will be able to communicate quickly and relay information accurately as they carry out their duties.

Prowess of Guangzhou Rapid Reaction Force

90CM0387A Beijing JIEFANGJUN BAO in Chinese
29 Jul 90 p 2

[Article by Zhang Zhimeng (1728 2535 3718) and Li Bosong (2621 2672 2646): "A Certain Rapid Reaction Force in the Guangzhou Military Region Begins To Show Prowess"]

[Text] A lightning-quick battle has carried the military training of a certain rapid reaction force in the Guangzhou Military Region to a new high point. At a heavily guarded "enemy" missile base poised to deliver a strike, a helicopter silently arrives. In an instant, 20 soldiers clothed in battle fatigues, their faces camouflaged, drop out of the sky. Practically the instant their feet hit the ground, their assault rifles fire out salvos of bullets, and the "enemy" guards immediately fall to the ground. The soldiers then quickly advance. As they near their objective, a burst from their rocket launchers and flamethrowers leaves the missile base in a sea of flames. No sooner do the soldiers achieve their objective than they retreat. Covering in turn for each other, they quickly board the helicopter and leave. The entire battle does not last seven minutes. "Lightning speed!" "Beautiful!" Leaders from the General Staff Department, the Guangzhou Military Region, and Guangdong Province who witnessed this battle exclaim excitedly, "Great! Great!"

A rapid reaction force capable of performing various special tasks in all sorts of complex conditions is being built up in order to meet the need to repulse future invasions. Leaders of the Guangzhou Military Region and related departments have made it a major task to establish a rapid reaction force with an economical and highly efficient organizational structure, high-quality weapons, rigorous training, flexible command, strong

capability for independent operations, capability for high-speed mechanized movement, strong survival skills in the field, and a strong ability to take care of its own supply and maintenance tasks.

This rapid reaction force has resolutely adhered to a rigorous training program. In addition to incorporating the broad range of skills and knowledge afforded by the training techniques currently employed by China's military, they have explored and formulated a training syllabus for rapid reaction forces. All the officers and men, in accordance with the "one specialty and multiple skills" requirement, have carried out highly difficult and comprehensive training. Special training content, special training methods, and special training facilities have enabled this rapid reaction force to attain a high level of combat strength. It takes only 35 minutes from the sound of the emergency horn for the troops to arrive fully armed by motorized transport at a destination 20 kilometers distant. Carrying various types of weapons, the soldiers are able to traverse 18 types of barriers, including high mountains, deep forests, rice paddies, irrigation canals, trenches, and walls, capture eight objectives, and march forward 1,000 meters in the face of enemy fire in only eight minutes. From the time they receive orders, it takes 20 soldiers only 15 minutes to board an aircraft fully armed, fly eight kilometers, land by parachute, and capture a certain elevated point. These writers have also observed that these troops are highly accomplished in many tactical skills. As the troops carried out one mechanized advance, they rode motorcycles and drove jeeps and trucks. Without reducing speed, they were able to switch drivers for each of the three types of vehicles. As they drove forward in tanks and armored vehicles, the antiaircraft machine guns atop the armored vehicles fired at a row of targets with 100-percent accuracy. The cannon atop the tank fired four rounds, each of which hit the mark. Twelve soldiers performed an exhibition in which each one fired six types of light arms, including recoilless cannon, mortar, and rocket launchers, and performed outstandingly. These writers also learned during their visit that these troops' survivability in field operations is remarkable. In order to prepare for the special tasks that will fall upon the rapid reaction forces in future warfare, they have launched training exercises to strengthen their survivability in various adverse environments. For example, they have trained to walk, fight, eat, hide, and live in mountains and forests. They have practiced tactical skills among irrigation canals and rice paddies. They have inured themselves to solitary conditions in isolated mountains and cliffs. In addition, the high-quality weapons of this rapid reaction force also made the participants in the meetings feel excited and proud. The force is equipped with a pair of "divine eyes"—a television observation system on the battlefield and an unmanned reconnaissance aircraft. Various new light and heavy arms and transportation instruments have enabled this force to acquit itself on the modern battlefield "like a tiger with wings."

Profile of Rapid Reaction Unit

HK1409064190 Beijing ZHONGGUO QINGNIAN BAO in Chinese 9, 10 Aug 90

[Article by Zhang Zhimeng (1728 2535 3718), Li Bosong (2621 2672 2646), and Li Qingming (2621 3237 2494): "Sharp Sword for Peace—Notes on China's Rapid Reaction Troops"]

[9 Aug 90 p 2]

[Text]—A new page in military history has been opened:

On 27 July 1990, a rapid reaction unit [RR unit], which can independently carry out special combat tasks under various complex circumstances, set up by the PLA [People's Liberation Army] Guangzhou Military Region, showed its majestic appearance to the world through an exciting military training display:

It is neither a common reconnaissance unit, like those in our Army's history, nor a modern Western-type dare-to-die corps, such as the one in *The Green Berets* or *Code Name: Wild Geese*, but a sharp sword for peace with Chinese characteristics, possessing our Army's first-class political quality, military skills, weaponry and equipment, and logistic guarantees.

Their Military Prowess Is Known Throughout the South
(We arrived at the military training report display site.)

It was 0900 sharp on 27 July 1990.

Immediately after targets were shot, the words "Military Training Report Display by a Guangzhou Military Region Rapid Reaction Unit" appeared on a steel target in front of the rostrum.

Army flags. Helmets. Field uniforms. While they were marching past the rostrum in square formations full of power and grandeur, all the unit's cadres and soldiers were burning with righteous indignation: Motherland, we are here to receive your inspection...

One hundred agile and brave soldiers demonstrated Chinese boxing exercises with skillful opening moves: It was a grand spectacle in which one could only see the movements of fists and feet, and the glint and flash of cold steel. After that, the soldiers demonstrated grappling: Bare-handed soldiers confronted those with daggers, using various defense and attack moves that could subdue the enemy. Their masterly skills in breaking bricks and smashing bottles were really superb: The soldiers used their heads, elbows, knees, palms, and legs to break and smash bricks, bottles, jars, and benches. We noticed that it took nearly 40 minutes for the soldiers to finish the above subjects and, although they were all soaked with sweat and their sunburnt faces were covered with a thick layer of dust, none of their faces had changed color nor were they out of breath. Instead, they were all standing upright under the blazing sun like iron towers.

The brilliant demonstration of skill won warm applause. Then people's attention was caught by an even more wonderful tactical technique display: Soldiers in full battle gear drove forward in motorcycles, jeeps, and trucks. Without slowing the vehicles, they got off and on the vehicles swiftly, and took turns driving all three kinds of vehicles. After that, the soldiers jumped into armored cars and tanks, started immediately, and swept across "the enemy's forward position." During the attack, the armored cars' antiaircraft machine guns all hit the targets with running fire and the tanks' cannons fired four shells and hit four targets. Screened by armored cars and tanks, 12 soldiers reached "the enemy's forward position." They used various kinds of weapons, such as automatic rifles, pistols, submachine guns, light and heavy machine guns, recoilless guns, mortars, rocket launchers, to attack the enemy's targets, and not a single bullet missed its target.

It was 1020. The battle continued.

A team of soldiers swiftly got into bushes, then they surmounted trenches, climbed over wire entanglements, swam across rivers, got past paddy rice fields, passed through caves, and climbed over high walls. The series of tactical movements was finished in a concealed, swift, agile, and brave way. The watch told us that it took only seven minutes from beginning to end for the soldiers to traverse this complex 1,000-meter-long obstacle course with a tactical background.

It was 1030. The battlefield television reconnaissance system showed that an enemy motorized unit was advancing along Highway B to assist its front troops. Twenty soldiers were ordered to embark on a plane to carry out a parachute sabotage against Bridge A which would be the enemy's only road. Fifteen minutes later, two camouflaged planes appeared over Bridge A. In a twinkling of an eye, the soldiers landed from the sky to the groves near Bridge A. Before the enemy guarding the bridge realized what was going on, our troops had already spread swiftly and occupied commanding elevations. In another eight minutes, they wiped out the enemy guarding the bridge. With a thundering sound, the bridge was blown up to the sky.

"Quick! Marvelous!" Generals, field officers, as well as responsible comrades of the provincial and city party committee and government sitting on the rooftop stood up one after another and responded with warm applause.

They All Have a "Sunflower" on Their Heads

(We went to the barracks to interview soldiers and passed across a cement training ground.)

Colonel Li Zenfa [7812 2182 3127], one of the founders of this RR unit, talked with us as we walked: "For various reasons, this RR unit of our Army does not yet have an emblem. However, every soldier already has an evident symbol—they all have a 'sunflower' on their heads."

We were extremely puzzled, so we stopped to watch the over 100 officers and soldiers who were undergoing an exercise on capturing enemy personnel. Sure enough, everyone had a ring of white spots, each bigger than a thumb, near their foreheads.

We asked a young man, who was 1.8 meters tall and as strong as an iron tower, about this. He shyly stroked his head and said: "This mark is a sign of our training in qigong [a system of deep breathing exercises]. We hit our heads with palms, fists, and sandbags at first and our heads became red and later blood blisters were raised. Then, after the blood spots disappeared, tender skin came out, which was hardened into thick callus. Then, we bumped against trees and walls with our heads, and used bricks to crack on our heads. As a result, only the hair around the center is growing and white spots were thus formed in the middle. We call this a 'sunflower.'"

Oh! Sunflowers, flowers of heroes cemented with blood and sweat.

The RR unit's special combat tasks require every soldier to possess a strong physique and an exceptional capacity for repulsing attacks. Mastering qigong is the ABC's for all the soldiers. Li Zhenfa showed us a daily record of primary training. It was recorded as follows: In addition to finishing formation training within eight hours, soldiers should undergo a 10-kilometer cross-country training in full battle gear early in the morning. Before attending morning classes, they are required to run two circles around the barracks as they hold two bricks with their arms outstretched horizontally. At noon, they should practice Chinese boxing for half an hour. Before attending afternoon classes, they should do 150 push-ups, 100 squats with weights, and 300 frogjumps. Before going to bed, they should hit sandbags and walls 100 times with their heads, elbows, knees, palms, fists, and legs; push brick piles vigorously 500 times; and do 200 sit ups.

Steel is made this way. Now, all soldiers in the unit can do hard qigong with their heads, elbows, knees, palms, and legs. Some of them can leap onto roofs and vault over walls, and even have the ability to not be injured by guns and swords.

No Tears Should Be Shed on the Training Ground

(We went to the parachute jumping training site.)

He was the first to land from the sky. It was so windy that day that only half the 20 parachutists managed to land in the assigned area. Some of them jumped into ponds while others got caught on wire poles. He was among those who had an accurate and skillful jump.

After collecting and packing his parachute, he walked toward us with a smile. His paratrooper dagger was slapping at his bottom, making him look very smart.

"My name is Chen Jianxin [7115 1696 2450] and I joined the Army in 1987. When the RR unit was first

organized, I wept when my name was enrolled. It was beyond my expectation, however, that it is harder to be a soldier in the RR unit than to be a field soldier, and it is the hardest to be a paratrooper in the RR unit. It can be said that one jump from the sky costs 100 days of suffering on the ground!"

He, a baby-faced man, was very frank.

Those who are qualified to be backbone paratroopers in the RR unit should be proud of themselves: Being the cream of the crop, they should be like fierce tigers on land and flood dragons in water. Yet, it is achieved through hardship: In addition to finishing all the common subjects and special training, they should also train their "wings." When it was first set up, the unit had no parachute training facilities, so the soldiers carried out training with what was available: They spun around on a fixed point and then suddenly stopped turning in order to practice judgment in the sky. They lay on their bellies on benches with their four limbs held up in order to practice fixed gestures in the sky. Without jumping platforms, they made use of hillsides in front of or behind their barracks. One time, after continuously jumping down from a 2.5-meter-high hillside 30 times, Chen Jianxin's legs became so weak and limp that he lay down on the ground. On seeing this, the deputy company commander asked him with much concern: "Chen Jianxin, are you injured?" Little Chen shook his head. The deputy company commander was angry: "How can you lie down without any injuries? Follow me and continue!" Chen wanted to cry, but managed not to. The deputy company commander was a parachute jumping prince, for he had made more than 300 parachute jumps with a fixed landing place and was successful every time. During the training, he told his soldiers: "How can wings grow out? They grow out in sweat! I must tell you that no tears should be shed on the training field and no one should believe in tears, otherwise, he is not a real man!"

Oh! A real man means that he will not weep easily and that he can do what others can. Chen Jianxin suddenly stood up, rushed to the top of the hillside, and began to jump again: 10 times, 20 times, 50 times...

[10 Aug 90 p 10]

[Text] The Truth and "Complaints" of Soldiers

(We drove in a motorcycle motorcade with more than 10 soldiers.)

Our mighty motorcade was marching forward along a muddy highway.

Soldiers in full battle gear began talking with us freely.

"Will all your guns be locked up after training?"

"Are you joking? What does a gun mean? A gun means the second life for a soldier. If we do not touch guns in ordinary times, we will be dumbfounded during war. Believe it or not, this is the truth. Ah, tell you what, now we touch our guns every day and we have the same

feeling as it is sung in a song: 'Without touching my gun for only one day, my fingers will itch. Without taking good aim in one shot, I will feel uneasy in my heart!'"

While he was talking, someone called him squad leader.

"You journalists, why don't you call for a shooting competition in the whole Army. If there is one, I am sure to win the championship!"

We looked in the direction of the voice and saw a sturdy young soldier.

His name is Peng Guohong [1756 0948 3163] and, being the only child in his family, he is unconventional and unrestrained. Because he was built large and full of strength, he was specially recruited into the provincial wrestling team and once won second place in the national youth wrestling invitational tournament. His name was later removed from the rolls because of street fights. Since he joined the rapid reaction troop, he has been resculptured and become one of the top shooters in the whole troop, who use all kinds of light weapons to hit whatever targets they are asked to.

We asked him, "What kinds of activities do you like best?"

He answered, "I like field operation survival training best, for it is very practical with a strong smell of gunpowder and a flavor of wildness."

We asked him again, "What do you dislike most?"

He answered, "I am disgusted with the film *Code Name: Wild Geese* that they showed in town. It is nothing! If our training were made into a film, it would be more interesting than that; I wonder why no one ever thinks of making a film here?"

The soldiers of the rapid reaction troop have special soldierly features of their own.

Military-Academic-Graduate-Turned-Officers' Views on Training Performance

(We paid a visit to squads and platoons at night.)

Immediately following the sound of a bugle, all the lights went out. As expected, the whole troop was under the command of one bugle.

The 4th Company. The sentry was standing straight at his post, his bayonet shining in the moonlight.

When we entered the barracks, the soldiers had already gone to bed. Their clothes were folded and placed to the left of each bed. Their shoes were put on the ground, forming a straight line horizontally and vertically. Our watch showed that it had been only five minutes since the bugle sounded.

Company Commander Chen Xiangwen [7115 4161 2429] said, "I graduated from the Guilin Army School. In my opinion, cultivating a unified style helps enhance

military training performance and produce combat strength. Besides doing everything in strict accordance with rules and regulations, we have also worked out some strict measures in light of the characteristics of the rapid reaction troop. For example, we have explicit regulations on when to wear work clothes, combat uniforms, or ordinary uniforms. If one soldier is not neatly dressed, the whole squad will not be allowed to go to the training ground. Smoking, speaking, and tilting one's head are not permitted while a film is shown. In a word, we strive for a unified approach at all times, attempting to foster good habits. This move is highly efficacious. Now we dare to run for first place in all of our military training subjects."

Are Unmanned Planes Really "Speechless"?

(We visited a weaponry and equipment exhibition room.)

The visit was really eye-opening: All kinds of modern weapons used in defense, attack, reconnaissance, communications, and sabotage, from small submachineguns and dagger guns [bi shou qiang 0552 7445 2847] to battlefield television reconnaissance systems and unmanned reconnaissance planes, gave people an impression that this is a well-equipped crack troop.

It was very quiet in the exhibition room. The generals only nodded their heads even when they were at the height of enthusiasm.

However, are unmanned planes really "speechless?"

We can sense a call, a call made by superior modern equipment on the supply of qualified people.

Outside the exhibition room, we had a talk with Deputy Troop Commander Chen Guangqing [7115 1639 0615], who was once a military-academic-graduate-turned-officer. He held that, as a troop with concentrated technologies, the rapid reaction troop is where the military-academic-graduate-turned-officers will find themselves to be very useful. In a sense, the potential forces for the future development of the rapid reaction troop hinge on the educational level of the officers and soldiers. He proudly told us that by now, all cadres in the troop are college graduates and some of them have even obtained more than one diploma. In order to strengthen the training of potential forces, the troop has made expensive intelligence investments.

He took us to more than 10 places for special studies, such as an education center, a research room for foreign army studies, a geography and meteorology study room, and foreign language study room. Everywhere we went, we could taste the rich flavor of modernization.

Honor, Responsibility, and Mission

(We drove to a field training site.)

The bulletin board pasted with newspapers was especially eye-catching. Under the headline of "Honor,

Responsibility, and Mission," more than 10 color photos were put up, pictures of model and top soldiers who emerged during training.

Political Commissar Kong Yuehua [1313 4727 5478] briefed us: The six-character principle meaning "Honor, Responsibility, and Mission" was put forward by a department leader of the military region when the rapid reaction troop was first set up. We take this six-word principle as the main content of our ideological and political work in training to arouse in vivid and vigorous forms the sense of honor of the officers and soldiers as members of the rapid reaction troop, their sense of responsibility to shoulder special combat tasks, and the sense of mission to safeguard the four modernizations and peace. We strive to bring up special soldiers who, under all kinds of circumstances, consider the interests of their motherland above everything else and are always invincible no matter with what kinds of enemies they are faced. For example, the troop organized soldiers to give speeches entitled "The Nansha Islands [Spratlys] Are in My Heart" and "Changes in the History of the Last Hundred Years" and, in light of special training, carried out a competition of "singing loudly songs of practicing martial arts and striving to become a top soldier."

The lofty senses of honor, responsibility, and mission are encouraging the pioneers of the troop to march forward courageously. During our visit to the troop, we were asked by the soldiers to write about Troop Commander Fan Xiaobing [5400 1420 0365]. Since the day when the troop was set up and began its training, Fan Xiaobing has devoted himself to this troop. He has never asked for a single day of leave, even when his parents were seriously ill and his son often fell ill. Some people asked him, "You did quite well in the office, why did you request to come to this troop and bear the hardship here?" He answered, "My military experience gained through the years has made me feel deeply that our Army extremely needs a modernized rapid reaction troop. My men and I often thought that, if this rapid reaction troop of our army can grow and develop in our hands, even if we have to sacrifice all our own interests, we will still feel that our lives have not been wasted!"

This shows the noble character of China's rapid reaction troops in the 1990's.

Hero in Development of Ship-Based Aviation Honored

Carrier Aviation Construction

90P30094A Beijing JIEFANGJUN BAO in Chinese
24 Jul 90 p 1

[Article by Zhu Bin (2612 2430): "Sparing No Effort in Ship-Based Aviation Construction, Special-Grade Pilot Huo Xiaocai"]

[Text] On 19 July Navy Aviation issued a notice calling on all subordinate units to extensively launch activities

to study Huo Xiaocai, China's first-generation ship-based aircraft special-grade pilot. On 21 July the Navy Aviation political commissar awarded him a Citation for Merit, Second Class.

In 30 years of endless wrestling in Navy Aviation, Huo Xizocai has safely logged more than 2,700 hours of flying time; has been awarded the Citation for Merit, Third Class, five times; has outstandingly completed great tasks 100 times; and has had a hand in filling gaps in national flying technology several times. He has left bright contrails in the blue skies over the Pacific Ocean and more than 20 provinces and cities, over East China Sea outposts and the northwestern plateaus, and far out on the South China Sea.

During China's first ship-landing training for a ship-based helicopter, after every day completing 20 takeoff and landing sorties and intense flight tasks, Huo Xiaocai still did not leave the aircraft. He insisted on remaining in the rear of the pilot's cabin, using his hands and feet in simulating the operations of the helicopter, seeking the best feel for taking off and landing at sea. In jointly filling gaps in our Navy's ship-based takeoff and landing technology with his comrades-in-arms, Huo Xiaocai showed the indomitable stamina of "vowing not to rest while there is difficulty" in triumphing over the task of changing from land-based to sea-based takeoffs and landings; from fixed, immobile runways to moving, swaying warships; and from wide open airfields to narrow, limited decks. He also surmounted the numerous technical obstacles that came about as a result of this task and accurately mastered various types of takeoff and landing techniques, such as for when underway or at anchor, and so forth.

During our Navy's first blue-water ship and aircraft tactical coordination training exercise, Huo Xiaocai, in a heartfelt fulfillment of his duties in a down-to-earth manner, successfully organized a ship-based helicopter fendui and outstandingly completed a series of tactical training tasks, including deep-sea antisubmarine, reconnaissance photography, target-sighting, sentry, and search tasks. Not once did a plane not return to base and never was there a mistaken or forgotten action. He

fostered a core contingent by carrying out blue-water tasks and gaining tactical experience for our Navy's ship-based aviation units under blue-water conditions. The series of documents Huo wrote on the organizational system, leadership management, organization command, and aircraft maintenance and support, among others, for ship-based helicopter-blue water operations training has already become a valuable treasure for Navy Aviation.

Just when Huo Xiaocai had wracked himself in exhaustively pondering the key stage of the appraisal test flights of a new model airplane, he unfortunately contracted lung cancer, and by the time he was diagnosed, it had reached the later stages. Today, he is paralyzed over two-thirds of his body. Tears trickle down his cheeks when Huo Xiaocai recalls the fact that he can no longer return to the blue skies, but when he thinks back to the time when he put meticulous, loving care into the organization of the flight cause, his heart again feels immeasurable gratification.

Special-Grade Pilot Huo Xiaocai

90P30094A Beijing JIEFANGJUN BAO in Chinese
28 Jul 90 p 1

[Article by Zhu Bin (2612 2430) and Li Jimin (2621 3444 3046), from a JIEFANGJUN BAO Beijing 27 July dispatch: "Huo Xiaocai Awarded Citation for Merit, First Class; China's First-Generation Ship-Based Aircraft Special-Grade Pilot"]

[Text] This afternoon, Wang Ang, test-flight hero and former deputy minister of the Aviation and Aerospace Industry Ministry, accompanied by Navy Aviation commander Wang Xugong, political commissar Dan Dade, and political department director Hu Chanlin, came to the Navy's general hospital to award a glittering Citation for Merit, First Class, medal to Huo Xiaocai, China's first-generation ship-based aircraft special-grade pilot. Test-flight hero Wang Ang vigorously shook Huo Xiaocai's hand and with deep feeling said, "You and your comrades-in-arms filled the ship-based aviation gap in our Navy, and you completed the appraisal test flights of a new model aircraft. Your achievements will live on forever in the annals of Chinese aviation."

EAST REGION

Jiangsu Promotes Younger People to Senior Positions

90CM0376B Nanjing XINHUA RIBAO in Chinese
1 Aug 90 p 1

[Article by Ji Minghua (1323 6900 5478): "Over 50 Young and Middle-Aged People Promoted to Senior Positions"]

[Text] Recently another batch of over 50 young and middle-aged people was promoted to senior and sub-senior positions. This will go some way toward bridging the gap in our mix of qualified personnel.

The bulk of these top-notch personnel are master's and doctoral degree holders trained by the state in the 1980's. They have one thing in common: sound political quality, high professional standards, and outstanding scientific research performance. For instance, Yu Zi [0205 1311], 35, is the youngest professor in the province right now. He entered the graduate school of Tokyo University of Arts in Japan to study opera in 1985. The Japanese repeatedly tried to keep him, hoping that he would stay in Japan. However, he turned them down graciously each time and returned to China as soon as he finished his studies to join the faculty of Nanjing Normal University. He is highly accomplished in both the art of singing and the practice of teaching, having won the "National Young Teacher Award" given by the Fok Ying-tung [7202 5391 2639] Education Foundation and the "Literature and Arts Prize" awarded by the provincial people's government. Professor Chen Lingfu [7115 0407 1318], 44, teaches physics at Nanjing Normal University. He happened to be studying in Canada during the domestic turmoil last year but, unmoved by a generous offer from Canada, which included economic assistance and immediate migration, he firmly decided to return home. Over the years he has conducted successful research on alkaline halogen crystal off-center self-trapping state excitons and research on low-dimension magnetic alloy theory and has published 20 papers in leading journals at home and abroad, which received much attention in the international academic community and were highly praised by experts in the fields. At 41, Professor Zhu Donglin [2612 2639 7207] of Suzhou University is a principal teacher in the Chinese Department as well as an academic leader. Highly influential in modern Chinese literary research in China, he is also quite well-known overseas. His research on Cao Yu [2580 4417], modern dramatic history, and dramatic aesthetics is trailblazing. He is the author of several published titles and a string of papers and has won several national, provincial, and municipal awards.

SOUTHWEST REGION

Tibet Lawyers Busy as Citizens Turn to Courts

OW2109125390 Beijing XINHUA in English
1207 GMT 21 Sep 90

[Text] Lhasa, September 21 (XINHUA)—Baima, a village head in Mainling County in the Tibet Autonomous

Region, was arrested last April on a charge of embezzling public funds. But with the help of his lawyer he was eventually set free with a verdict of "not guilty."

When Baima was declared innocent, all the Tibetan observers at the open trial presented "hadas"—strips of silk traditionally presented as tokens of congratulations—and wine to the lawyer, judges and procurators.

"It is the law that is the real protective god of us Tibetans," Baima said excitedly.

Dandzim Puncog, the first Tibetan lawyer in the region and deputy director of the Lhasa City Legal Consultancy Office, said that more and more Tibetans are changing their old habit of praying to Buddha when they are in trouble, and turning to legal means to safeguard their legitimate rights and interests.

He said that five years ago he only had four or five cases a year, but last year he was asked to defend in about 30 cases. The 11 lawyers in his office are kept busy by increasing demands to handle cases.

A preliminary survey shows that the lawyers in Tibet have handled 190 cases involving individuals or units in the past few years, helping recover economic losses totalling 15 million yuan.

Chen Darong, director of the regional judicial bureau, said that it was only with the democratic reform in Tibet in 1959 that the traditional distinctions between the various classes of landowners, serfs and slaves was abolished. Since then, all Tibetans have become masters of the country and enjoy the protection of the laws.

In order to enhance legal awareness among the local people and help them use the law to protect their rights and interests, the regional government has in recent years sent judicial officials to the pastoral and rural areas to spread legal knowledge.

Meanwhile, a great number of Tibetan lawyers have been trained and law offices set up in the region.

Chen said that more and more Tibetans have also turned to legal means to settle civil and business disputes, as in recent years such disputes have increased significantly.

Dandzim Puncog said, "Our lawyers enjoy the trust and respect of the people. I have found pleasure in serving as a lawyer."

Construction Begins on Stupa for 10th Panchen Lama

OW2109231990 Beijing XINHUA in English
1640 GMT 21 Sep 90

[Text] Xigaze, September 21 (XINHUA)—Construction started yesterday for a grand stupa for Bainqen Erdini Qoigy Gyaincain, the 10th Panchen Lama, after a grand foundation laying ceremony was held at the Zhaixi Lhunbo Lamasery in Xigaze.

The tenth Panchen Lama died of a sudden heart attack in Xigaze on January 28, 1989.

Yesterday was a lucky day according to the Tibetan calendar.

In early morning, sounds of religious horns broke the calm of Xigaze City. Then, several thousand local officials, religious leaders and believers and people from various localities inhabited by people of the Tibetan nationality attended the ceremony.

In addition, 700 lamas from the Zhaixi Lhunbo Lama-sery attended a praying activity. Before it, a serial of praying activities had already been held for construction of the stupa, including Sutra chantings.

The stupa will be built with a fund of 64.06 million yuan from the central government.

NORTH REGION

Forum Mandates Translating Documents Into Mongolian

SK2409114390 Hohhot NEIMENGGU RIBAO
in Chinese 19 Aug 90 p 1

[Text] A few days ago, the General Office of the regional people's government and the Inner Mongolia Regional Language Work Committee held a forum on strengthening the translation work of organs. The nationalities language translation work of organs at all levels is one of the major aspects of enforcing the party's policies on nationalities and implementing the PRC's law on regional autonomy. Success in this work is of great significance in comprehensively publicizing and implementing the principles and policies of the party and the state, promoting economic and cultural construction, developing the intelligence of nationalities, strengthening national unity and consolidating a stable and united political situation. Comrades attending the forum felt that translation work of organs throughout the region has seen new improvements since the convocation of the regional party and government organs' translation work conference in 1982. The translation organs of some localities and departments have been restored and replenished and the system of using both the Mongolian and Chinese languages in sending official communications to other organizations has been gradually implemented. However, some problems which must not be neglected still exist, requiring our conscientious efforts to solve them.

The forum held that governments at all levels and various relevant departments should pay great attention to the translation work of party and government organs and strengthen leadership over this work. The documents and material that all leagues, cities, banners, and counties send to the grassroots units in the pastoral and semipastoral and semi-agricultural areas and the documents and material that the departments and bureaus directly under the regional government send to banners

and counties should be translated into Mongolian; thus, documents in both Mongolian and Chinese will be issued. All sorts of large meetings held by governments at all levels and various regional departments should have interpreters to give oral and written translations, and should issue material in Mongolian. Offices of governments at all levels and various regional departments should have cadres who are well-versed in both Mongolian and Chinese, and efforts should be made to pay attention to raising the political and professional quality of translators and to give them professional training. Leaders at all levels should show concern for the political and living conditions of translators of organs.

Comrades of 68 units directly under the regional party committee and government attended the forum.

NORTHWEST REGION

Tomur Dawamat Emphasizes National Unity in Xinjiang

90CM0378B Urumqi XINJIANG RIBAO in Chinese
20 Jul 90 pp 1, 3

[Article by reporter He Ruilan (0149 3843 5695): "Tomur Dawamat Delivers Special Speech Before Full (Enlarged) Session of the Regional Party Committee—Concentrate on National Unity With Our Hearts and Minds and Take a Clear-Cut Stand Against Splittism"]

[Text] The 15th full (enlarged) session of the third autonomous regional party committee held a full session on 19 [July]. Deputy secretary of the autonomous regional party committee, Tomur Dawamat, gave a special speech, entitled "Defend the Fatherland's Integrity, Uphold National Unity, and Go Forward Steadfastly on the Socialist Path."

Tomur Dawamat emphasized that we must have a better understanding of the significance of national unity, give top priority to work that enhances national unity, concentrate on national unity with our hearts and minds, take a clear-cut stand against national splittism, defend our national unity as we defend our own lives, love our country as we love our own mothers, and safeguard the county's integrity.

Tomur Dawamat pointed out that, looking back at Xinjiang's experience over the last 40 years, working hard to forge national unity, enhance national unity, and oppose national splittism is the key to achieving political, social, and economic stability. Whenever and wherever there is national unity, there is social stability, and economic and other undertakings will develop smoothly; whenever and wherever national unity falters, all undertakings will run aground. In the more than 40 years since liberation, especially since the Third Plenary Session of the 11th party Central Committee, with the loving concern and vigorous support of the party and the state, unity among the nationalities in Xinjiang has never been

more solid, and work on national unity and other undertakings has entered a new phase and is opening up new prospects. But, while affirming Xinjiang's achievement in this area, we must also soberly recognize the grim situation before us, the many problems plaguing our national unity work, and the unstable elements which undermine national unity. The struggle between those for "peaceful evolution" and those against "peaceful evolution" has intensified, and China has become the main target for "peaceful evolution." The menace that threatens and wrecks Xinjiang's stability comes from national splittism at home and abroad. At present, national splittist elements are hoisting the reactionary banner of the "Eastern Turkistan Republic" and are making an issue of everything from nationalities to religion, resources, and family planning and are confusing and stirring up the masses and fomenting splits. Take the independence of the "Eastern Turkistan Republic" for example. This is but a reactionary platform erected by the neonational splittist and old-line national splittist elements at home and abroad who attempt in vain to seek Xinjiang's so-called independence and split the country and disrupt our national unity. The "anti-Chinese and Chinese-exclusion" movement is another element of their reactionary platform. During the Baren Village armed counterrevolutionary rebellion, a handful of national splittist elements proclaimed pan-Islamism and pan-Turkism and shouted "anti-Chinese and Chinese-exclusion" slogans. This is extremely reactionary. On the religious issue, Tomur Dawamat said religion is a matter of ideology and belief. The Constitution guarantees every citizen the freedom of religion, which includes the freedom to have a religious belief or not to have a religious belief. Whether one has a religion or not is up to the individual, and no one should be forced to have a religious belief or take part in religious activity, nor should anyone be forced to give up one's religious belief. The church must not interfere in politics or in the party or government affairs or the judicial system. CPC members, particularly party cadres, are not allowed to have religious beliefs or to take part in religious activities. Except for work relating to politics and international relations and so on that requires some people to travel as part of an entourage, party members and cadres are not permitted to go on pilgrimages abroad.

Tomur Dawamat pointed out that a handful of national splittist elements have said many inflammatory things on the issue of tapping Xinjiang's resources and have charged that the state's development of Xinjiang's resources is robbing Xinjiang of its resources. This is ridiculous. Xinjiang is an inalienable part of this great country. Xinjiang's resources belong to the state and to the people of this country. Tapping Xinjiang's resources is essential to the country's socialist construction as well as Xinjiang's own development and construction. The national splittist elements who oppose the exploiting of Xinjiang's resources by the state are refusing to let the people of all nationalities in Xinjiang share in the prosperity, which goes against the people's best interest.

This exposes their evil ambition as they try in vain to separate Xinjiang from this great country on the one hand and demonstrates their ignorance and stupidity on the other hand. On the issue of family planning, birth control is China's basic long-term policy. For the sake of the prosperity of all nationalities and the happiness of generations to come, it is the responsibility and obligation of every citizen and every family to practice family planning and control the rate of population increase. The national splittist elements' violent opposition to family planning by minority races is but an excuse that serves their ulterior motives.

Tomur Dawamat also remarked on how to rally the different nationalities. He pointed out emphatically that cadres of all nationalities must take a clear-cut stand against national splittism. The leading cadres in particular must unite firmly and unanimously behind the party Central Committee and take a clear-cut stand in the struggle against national splittism and become conscious warriors in defending the country's integrity, upholding our national unity, and opposing national splittism. Cadres of minority races should take an even firmer stand and step into the forefront of the struggle against national splittism and play a key role in ensuring Xinjiang's stability. The struggle against national splittism is a serious political struggle. Whether one stands firm or wavers in the face of this struggle and whether one struggles against national splittism or becomes a sympathizer and wallows in the mire with the enemies is a severe test for each and every cadre. Tomur Dawamat hoped that each cadre, especially leading cadres, gets a passing grade from the party and the people of all nationalities in this test of struggle against national splittism.

Tomur Dawamat pointed out that stronger leadership in national unity work is the key to successful national unity work. Practice proved that if the leader of a locality, department, or unit pays attention to national unity, he will produce results, and the nationalities will be unified; otherwise there will be trouble. Leaders at all levels must put the emphasis on national unity and put working for national unity on their agenda and give it top priority. Special leading groups should be organized and personnel should be assigned to take charge, creating a leadership responsibility system in the localities and departments and making sure that someone is responsible for getting the work done and someone can be held responsible if the work is not done. We must plan, assign, inspect, and review the national unity tasks to make sure that everything is done correctly. In particular, the implementation of the "Law on Exercising National Regional Autonomy" must be examined and reviewed regularly and improvements be made promptly. At present, we must especially emphasize the rural grassroots organizations. After a round of thorough rectification of the rural grassroots organizations, effective measures should be taken to strengthen the party organizationally, politically, ideologically, systemically, and culturally. We should strengthen the party's leadership position in the rural areas, give full play to the functions of the government, and reinforce and expand the rural area's socialist front.

'Unauthorized' Mosque Construction Denounced

90CM0378A Urumqi XINJIANG RIBAO in Chinese
20 Jul 90 p 1

[Article by reporters Shi Jian (4258 1017) and An Hong (1344 4767): "Unauthorized Mosque Construction in Tuhuqi Township's Huojimite Village Stopped"; the last paragraph in italics is a source-supplied editorial note]

[Text] XINJIANG RIBAO Zepu News—At the recent Zepu County cadre meeting, Kade Musha, Tuhuqi Township's party committee secretary, was applauded for stopping a handful of religious leaders from building a new mosque.

Tuhuqi Township's Huojimite Village is a small village with 220 households. It already has three mosques which are adequate in meeting the needs of its religious followers. In the latter part of last year, encouraged by a handful of religious leaders and without the managing department's prior approval, the village decided to build a new mosque as big as the village elementary school across the street. Those involved quietly bought bricks for the mosque and hired outside bricklayers and were planning, after they had gathered all the necessary materials, to get the followers together on jume [Friday] when more people come to say namaz, and quickly complete the mosque in one day. A few cadres in the village knew about the plan, but not only did they not stop it, they even supported it and secretly organized the families and households to go to the brickyard at night to get more bricks.

On 15 August last year, when the mosque which was built on 0.4 mu of land was only slightly more than a meter high, the village party committee secretary, Kade Musha, happened to pass by and see it. He immediately stopped construction and summoned the village party branch secretary and criticized him severely. On the next day, Kade Musha called an on-the-spot meeting and invited members of the village nationalities and religious management committee, religious leaders, clerks of the united front, and village cadres and party members to attend. In front of the unfinished mosque, Kade Musha explained the party's policy toward religion to everybody, and together they studied the "Temporary Regulations on Administering Religious Grounds in the Autonomous Regions." He explained with sincere words and earnest wishes that the existing mosques are adequate in meeting the needs of the nearby religious followers and that there is no need for an unauthorized new mosque. Furthermore, the bricks would be put to better use building an elementary school than a mosque. Everybody nodded in agreement.

At the meeting, Kade Musha instructed the relevant cadres, party members, and religious leaders to conduct

an inspection and to demolish the walls already erected and give all the bricks and other building materials to the village elementary school. Shortly thereafter, the township convened a party branch secretary meeting during which Kade Musha again harshly criticized the village party branch secretary. When news of this incident spread, everybody applauded Kade Musha.

XINJIANG RIBAO Zepu News—Serikula Village in Zepu County's Saili Township appropriated lumber, grain, and cash totaling over 110,000 yuan from the people to expand and build a fancy mosque without prior approval. The local people are very upset.

Saili Township's Serikula Village is a village with 286 households. It has four existing mosques which are adequate in meeting the local religious followers' needs. In the latter part of last year, a handful of people from the village's No. 1 Village Small Group's Mosque Management Small Group claimed that the mosque was too old and, without obtaining permission, began a major renovation of the mosque. According to an investigation by the county party committee's united front department, the mosque cost more than 22,000 yuan to build and occupies an area of 280 square meters. It has a brick and wood structure and is as magnificent as it is ornately decorated. The villagers here are not wealthy, but a handful of individuals from the mosque took the expansion of the mosque as an excuse and exacted money from them, further impoverishing them. Reportedly, the mosque originally had 4,986 yuan; on the holy day, the village followers donated 1,660 yuan; materials from the old mosque were worth 3,500 yuan. The three items added up to 10,146. A shortfall of 12,126 yuan was made up by the villagers: 123 pieces of lumber worth 3,935 yuan and 7,143 yuan in cash and grain were taken from the people. Some households handed over as much as 350 yuan in cash. Payments were exacted from 90.2 percent of the peasant households. The local cadres never did anything to stop this illegal act.

Editor's note: *In recent years, Xinjiang has seen a growing number of mosques being built; they are getting bigger and fancier every day. Today, in terms of total square footage, there are enough mosques in Xinjiang to satisfy the needs of the religious followers, but still many localities are repairing and building more mosques. Some localities are short of funds and are exacting money from the people, adding to their financial burden and draining human, material, and financial resources. More serious is that feudal and backward religious forces are advancing, and socialist spiritual civilization is running into serious obstacles. Zepu County's Tuhuqi Township's party committee secretary, Kade Musha, did the right thing and should be applauded. The village cadres of Saili Township's Serikulake Village are wrong and deserved to be harshly criticized.*

Visits to Shandong by Taiwan Compatriots Increase

*SK2409012590 Jinan Shandong Provincial Service
in Mandarin 2300 GMT 21 Sep 90*

[Text] Since the Taiwan authorities lifted their restrictions on visits by the common people to Mainland China in November 1987, Shandong Province has received more than 84,000 Taiwan compatriots who were visiting relatives, sightseeing, and conducting business and exchanges of various kinds, 19 times the total number received during the six years between 1982 and 1987.

In the various cities and prefectures as well as various pertinent departments in the province, each and every Taiwan compatriot has received a warm and friendly welcome and civilized and quality service, thus making these Taiwan compatriots experience the concern of the mainland government and the warmth of the people in their hometowns, enhancing the common understanding between the people on the two sides of the Taiwan Straits, kindling their zeal in loving the country and loving their hometowns, and encouraging them to offer advice, make donations, and serve as a bridge to import Taiwan capital, and support the building of their hometowns.

Since the beginning of this year alone, Shandong Province has received more than 7,000 figures from Taiwan's

industrial, commercial, and economic circles, and received more than 30 economic and trade orientation teams from Taiwan. In the first half of this year, the province signed 32 contracts with Taiwanese traders, with the total investment reaching \$60 million.

Recently, the Taiwan affairs office under the provincial government held a provincial forum on the work of receiving Taiwan compatriots. Gao Changli and Zhou Zhenxing attended the forum and made speeches.

Taiwan To Attend Shanghai Meeting on Chinese Cuisine

*OW2509175890 Beijing XINHUA in English
1729 GMT 25 Sep 90*

[Text] Shanghai, September 25 (XINHUA)—The first symposium on Chinese cuisine is slated to be held in Shanghai starting October 5.

More than 60 experts in Chinese cuisine and senior chefs from Singapore, Taipei, Hong Kong and Shanghai will meet and share their expertise.

According to local officials, Taipei, capital of Taiwan Province, has decided to send 30 representatives to the symposium. It will be the largest gathering of people from catering circles on the two sides of the Taiwan Strait in the past four decades.

Comparison of Financial Resources of KMT, DPP

90CM0357A Taipei TZULI WANPAO in Chinese
26 Jul 90 p 5

[Article by Ch'en Ts'ui-lien (7115 5050 5571): "The Kuomintang is Rich, the Democratic Progressive Party Is Poor"]

[Text] In the face of overwhelming financial burdens, Democratic Progressive Party [DPP] chairman Huang Hsin-chieh [7806 0207 0094] can't take it any longer and publicly announced his resignation. The DPP's long-standing financial crisis has again manifested itself. Because the two big political parties have such different sources for fund raising, this allows the KMT, which controls and possesses huge party-run enterprises, to sit back and relax, while the DPP, which lacks fixed sources of revenue, is constantly panicking over its finances.

According to the 1991 annual party affairs budget set forth by the KMT [Kuomintang], their outlays have reached NT\$4.64 billion [New Taiwan dollars], while the DPP's annual budget is approximately NT\$24 million. The DPP, which has been winning one vote for every two KMT votes, somewhat unexpectedly has only 1/200th the money of the KMT. The political power and financial resources of the ruling and opposition parties are out of proportion.

The KMT's regulations clearly specify that the sources of funding should be party dues paid by members, political contributions, and profits from party-run enterprises. Although the KMT claims to have 2 million members, in fact there has been a significant drop-off in membership and revenue from dues is extremely limited. The KMT has good relations with the business community and its primary source of revenue comes from the huge party-run businesses under the jurisdiction of the Central Finance Committee and the Cultural and Labor Committee. KMT investments include 12 agencies under the jurisdiction of the Central Finance Committee, such as the Central Investment Company, and eight cultural businesses under the jurisdiction of the Cultural and Labor Committee, such as the Central News Agency. If you add investment companies on top of that, the KMT has controlling interests in 70 companies, and it is difficult to estimate its total assets.

Because of the KMT's advantageous position as the ruling party, it has long had a close cooperative relationship with all levels of government and state-run industries and is in an advantageous position to manage its operations. For example, the supply and marketing rights on natural gas for household use in the province is held by the Vocational Assistance Commission for Retired Servicemen, which works in cooperation with the KMT, which has a lot of stock in all the natural gas companies. Another example, is state-run industries extending special privileges to KMT party-run enterprises. Both parties have interlocking stocks, and large scale government projects are always contracted out to party-run construction companies. The Ministry of

Defense is the biggest customer of the party's Chien-Tai Concrete Company and Ch'i-Lu Company.

In addition, the ruling KMT always makes provisions in the central government's total budget for economic assistance for certain party-run companies such as Central Daily News and the China Broadcasting Company. This has caused constant accusations by members of the Legislative Yuan of an "indivisible Party-government" budget or a "hidden" budget. And the finance companies which the KMT uses to intervene in the financial sector have gained monopoly rights and are making huge profits. This "privileged operation" is a cause of great anger among the opposition parties.

The Ministry of Finance is going to have newly established commercial banks start registering in the near future. The KMT's Central Finance Committee is enthusiastically collecting capital to establish the "Ta Hua Bank," a move which is attracting attention in all circles.

In the case of the DPP, its primary source of funding is outlays and donations made by individual members. Sources say that the DPP requires members of the Central Standing Committee, the Central Executive Committee, and the Central Advisory Committee to provide amounts ranging from NT\$100,000 to NT\$200,000 to the party's treasury. Candidates should also donate one tenth of the public grants which they receive to the central party committee. While the DPP does receive party dues from members, its membership is so limited that this money is inadequate.

Because of the central party organization's lack of funds, DPP candidates cannot rely on financial support from the central party and must instead rely on dinners and talks to raise money from the masses. In recent years industrial and commercial circles have gradually had more frequent contact with the DPP, and one occasionally hears of political contributions. But business contributions tend to go to the political stars, and public officials must rely on their own efforts and guts. Since the party cannot provide real financial assistance during elections, candidates for public office cannot hope for any "remuneration" afterwards.

The DPP's scope of activities is increasingly showing a trend toward large-scale development as its budget has gradually risen from NT\$8 million in its first year to NT\$12 million in the second year, NT\$16 million in the third year, and NT\$24 million in 1991. However, the party still has growing financial problems. In addition to relying on contributions by public employees and the generous support of chairman Huang Hsin-chieh, the DPP has established a Funding Development Committee to plan effective fundraising and financial policies. But after the committee chairman Hsu Ming-te [1776 2494 1795] himself lost an election for the Legislative Yuan, he then took little further interest in party affairs; thus this committee couldn't do what it wanted to and has had difficulty having any effect on the party.

Huang Hsin-chieh has said that since becoming party chairman of the DPP, he has contributed a grand total of NT\$40-50 million to the party, all of which has been spent on party affairs. In light of the party's financial shortages, this is pitifully insufficient. Having trumpeted their wishes not to become "the spokesmen of commercial and industrial interests" and "opportunists taking advantage of special privileges" by running party businesses, they will be at great pains to ensure the existence of a continuous financial lifeline.

'Chu Kao-Cheng Phenomenon' Explained

90CM0357A Taipei TZULI WANPAO in Chinese
25 Jul 90 p 14

[Article by Li Ch'iao (2621 0829): "The 'Chu Kao-Cheng Phenomenon'"]

[Text] Recently Mr. Chu Kao-cheng [4281 7559 2973] was "purged" by the Legislative Yuan Committee of his own Democratic Progressive Party [DPP]; as a result, he received a lot of television coverage and got what he deserved. As to whether we the masses do not already consider this rather strange, there has been little reaction.

In reality, the reason Mr. Chu Kao-cheng is "Chu Kao-cheng" is not groundless, nor can it be explained purely as being created by Chu himself; rather, it is something that gradually took shape under present circumstances. It is the "projection" of various social and political factors; it could also be called symbolic. When some social behavior has a higher meaning than merely the individual, Mr. X is not merely "X." Therefore, today's Mr. Chu Kao-cheng is simply an abbreviation for the "Chu Kao-cheng phenomenon."

To put things simply, Chu Kao-cheng is a product of an absurd political system. Hence "Chu Kao-cheng" is an absurd spear attacking this absurd political system, and it lays bare the absurdities of the system. Because it is an absurd system, when it suddenly encounters a similarly absurd spear it becomes dejected and can offer no defense. In other words, when such an absurd system resorts to absurd methods to defend itself, unless rational opposition members or attackers stage a revolution, ordinary measures will be ineffective. This process of "absurdity countering absurdity" would be worth a political historian writing a treatise about.

The problem is, since the attackers are similar in nature to the attacked, aside from getting rid of them all together—at the same time revealing the absurdity, substantive reform is not possible. Conversely, during this absurd attack, the spear of the attacker cannot help but expose its fundamental absurdity. After the battle to the death between the "Poisonous Dragon and the Evil Dragon," those that fell in battle could no longer distinguish the Poisonous Dragon and the Evil Dragon. At this point, this spear of absurdity has suddenly overnight become an absurd phenomenon to members of society at large and has begun to harm society.

At this point in our consideration of the "Chu Kao-cheng phenomenon," we cannot help but notice one fact. The environment which led to the formation and achievement of the "Chu Kao-cheng phenomenon" has a basis in society. Consider two facts:

1. In December 1989 Chu won the Yun Lin county seat in the Legislative Yuan by a large margin without DPP candidate status.

2. The June 1990 issue of LIEN HO WEN HSUEH [UNITED LITERATURE] magazine published the results of a special project: "The Writers' National Affairs Committee." The second question in the survey was to submit the names of 5-10 current political figures. They asked this of 37 people, of whom 9 did not respond. From the remaining 28 "literary experts," the largest number of votes, 17, went to Chu Kao-cheng! Li Teng-hui, Lin Yang-kang [2651 3152 3263], and Li Huan [2621 3562] were far behind.

Chu was reelected to the Legislative Yuan by a large margin; there are those who explain this as being the effect of party factions and the low level of voter intelligence, but many of the respondents to LIEN HO WEN HSUEH's survey were intelligent young writers, including even a few well known college professors—could they all be so happy with Mr. Chu Kao-cheng?

At this point we must face a high level problem: the basic difficulties of Taiwan's democracy movement. Taiwan's democracy movement, which is an opposition movement, lacks a cultural foundation. We still have not established an opposition culture. While attacking the DPP, new Kuomintang [KMT] Legislator Chao Shao-k'ang [6392 1421 1660] said something worthy of recording for posterity in historical annals: "The DPP is increasingly coming to resemble the KMT." I think that the gentlemen of the DPP shouldn't get too angry. All those who are concerned about Taiwan's democracy and security should take this as the starting point for consideration and self-reflection. How can we cause the "Chu Kao-cheng phenomenon" to dissipate early on? The only option is to create new cultural values: right versus wrong, white versus black, yes versus no, and democratic rule versus autocratic privilege. We ourselves must not utilize absurdity to get rid of absurdity!

Various Views on Issue of Provincial Origin

90CM0361A Taipei TZULI WANPAO in Chinese
23 Jul 90 p 5

[Article by reporter Chen Tsui-lien (7115 5050 5571): "Just Who Is Stirring Up Consciousness of Provincial Origin?"]

[Text] Just who is stirring up consciousness of provincial origin?

The issue of provincial origin has recently become a topic on which politicians have taken sides, intensifying a political dispute that has always been in upheaval.

Politicians have clearly demarcated the boundary and stressed that they themselves did not stir up the issue of provincial origin. However, in their actions they have added fuel to the fire and made the groundswell of the dispute over provincial origin continue to expand.

In March, just as political strife was intense, the clamor in the Legislative Yuan for the forcible retirement of senior legislators was increasing. Liang Su-jung, the president of the Legislative Yuan, and one who had suffered the wave of attacks over forcible retirement first of all at a meeting of members of the legislator's party branch of the KMT [Kuomintang] and stirred up the Wisdom Collection Association [chi ssu hui 7162 1835 2585] and the DPP [Democrataic Progressive Party] to join hands was for "comrades of our province to prevent election of mainland and Overseas Chinese members" the provincial origin issue spontaneously became public. Huang Chu-wen [7806 0031 2429] and others who were all members of the Wisdom Collection Association clarified in private the issue that forcible retirement of senior legislators was unrelated to provincial origin but was a necessary step in democratic reform.

This May, on the eve of the eighth presidential and vice presidential elections, the struggle between the mainstream faction and the non-mainstream faction intensified daily. Some people in the political arena promptly pointed out sensitively that the mainstream faction is headed by persons of Taiwan origin, and the non-mainstream faction is mostly sons and grandsons of people from other provinces. Provincial origin has gotten mixed in with the political dispute. Ts'ai Hung-wen [5591 7703 2429], national policy advisor designate, urged Lin Yang-kang, president of the Judicial Yuan, to abandon the "Lin-Chiang cooperative" campaign for president and also said things like "people from this province should not fight with others from this province," and the people condemned Lin Yang-kang as a "Taiwan traitor." This caused great dissatisfaction among the non-mainstream faction. He also blamed such members as Chao Shao-k'ang [6392 1421 1660] and Li Sheng-feng [2621 0524 1496] for provoking the "originators" of the issue of provincial origin.

The provincial origin resistance issue reached its peak after the July National Affairs Conference. Liang Su-jung repeatedly said abroad that people of Taiwan origin wanted to "sweep away all forces from other provinces!" and stressed that senior legislators and persons from other provinces were "being expelled" and "excluded

from politics." When Liang Su-jung encountered advocacy of Taiwan independence, he immediately retaliated fiercely and, without pulling any punches, indicated his feelings that he was being excluded, revealing fully his high degree of insecurity and self-defense consciousness. DPP legislative caucus convener Chang Chun-hsiung [1728 0193 7160] and members of the government and the party all felt that Mr. Liang's behavior was only a tool in the struggle to resist retirement and attack their motives. However, the debate within the Legislative Yuan on whether or not to establish a "constitutional reform special committee" pitted mainstream faction against non-mainstream faction. It was almost impossible to keep the debate from turning towards provincial origins, and there were recriminations on each side of chamber of the Legislative Yuan.

The issue of provincial origins cropped up constantly in political debate. Finally, when receiving members of the patriotic league, President Li Teng-hui responded to the queries of Yu Mu-ming [6735 1970 2494] and pointed out the clear point that he himself "is most concerned about the second generation of people from other provinces" and demanded that they not raise the "provincial origins issue" again. Yet Sung Ch'u-yu [1345 2806 3842], secretary general of the KMT Central Committee also condemned politicians' exaggeration of the provincial origins issue as "extremely irresponsible behavior."

Chao Shao-k'ang [6392 1421 1660] and others repeatedly stressed that the issue of provincial origins was raised by the Wisdom Collection Association or some individuals. However, they also publicly stated that the primary motivation behind the cooperation between the National Affairs Committee DPP and the KMT mainstream was to "first unite people of this province to destroy those from other provinces, and then for those from this province to compete!" Subsequently, the DPP New Tide Faction called a press conference and accused the new KMT United Front of engaging in a struggle over provincial origins and criticized Li Teng-hui's undemocratic methods intensifying the provincial origins conflict. Yet the new United Front attacked the New Tide and condemned the New Tide as "thieves being the first to shout 'catch the thief!'" Although Li Sheng-feng [2621 0524 1496], Chao Shao-k'ang and others constantly cast off all responsibility for provoking the issue of provincial origin, that their actions have fed the fire of provincial origin antagonism and intensified the conflicting positions are incontrovertible facts.

Statements of Domestic Politicians on "The Provincial Origin Issue" in the Last Six Months

Date	Name	Place	Statement
24 Mar 90	Liang Su-jung	Meeting of KMT Legislative Party Branch members	The KMT increased number of legislators and the DPP joined hands to attack senior and overseas legislators, is hard to tolerate, especially the struggle of the Wisdom Collection Association and the opposition is almost like the Red Guards.
			I really do not understand why comrades from this province again and again exclude members from the mainland and Overseas Chinese.
			I said to Chairman Li that localization should not be overdone and Chairman Li said, "I am most concerned about people from other provinces." I immediately said, "But now people from other provinces also feel threatened!" In the next three years the political situation on the mainland may change and President Li may be the president of all of China. Slowing down localization for three years will not delay it much, but it definitely won't lead to Taiwan independence.
26 Mar 90	Hsieh Ch'ang-t'ing [6200 7022 1694]	Legislative Yuan session	Authority makes people insane. Legislative President Liang does not begrudge the social cost and the national future as the price for his authority and has invoked provincial origins to protect his personal authority. The price paid by the nation is the harmony of the Taiwan people!
5 Jul 90	Ch'en Shui-p'ien [7115 3055 2078]	Legislative Yuan session	Today's National Affairs Conference evaluation meeting became a pro-Li and anti-Li struggle; a proreform and antireform struggle; a participant and nonparticipant struggle; and, worse, it concealed a war between people from Taiwan and people from other provinces!
9 Jul 90	Liang Su-jung	In a TZULI WANPAO interview	Some newly added legislators want to establish a constitutional reform committee in the Legislative Yuan, but the exclusion of senior legislators and legislators elected overseas will eliminate forces from other provinces completely!
10 Jul 90	Liang Su-jung	In a LIEN HO PAO interview	Chairman Li and I have talked. The person in charge should take the whole into consideration. Mr. Li has looked after us and has not forced us out, but "another" has done this and he should be checked and stopped.
11 Jul 90	Liang Su-jung	In a CHUNG KUO SHIH PAO interview	I am not provoking provincial origins sentiment, but only want everyone to give serious consideration to this issue. No one should try to gloss it over. I only want to state the problem!
			If old members die off naturally, that's not an issue. But we will not accept being attacked! It's a fact that Taiwanese are squeezing us old members out!
			I have always felt persecuted, because we have not squeezed out local people, but local people have squeezed us out! For many years we protected Taiwanese. Does the outside world know this?
13 Jul 90	Chang Chun-hsiung [1728 0193 7160]	Legislative Yuan session	Legislature President Liang often blocks political reform with the provincial origins issue, which led to inefficiency in legislative business! If all political reform complains about the provincial origins barrier, then the outcome will be very severe! For senior legislators to resign is a path that current legislative reform must take and has nothing to do with provincial origins!
			In current society, the idea of provincial origins is diluted and, if high level political struggle also has recourse to consciousness of provincial origins, then how will future political reform be carried out? Before, it was a minority from other provinces who ruled the majority in this province. Now it is merely taking the earlier unreasonable situation and rectifying it. In the process of rectification, it is hard to avoid having those who should benefit lose some benefits, but this has nothing to do with provincial origins!
13 Jul 90	Li Teng-hui	Responding to "Taiwan independence, independent Taiwan" trends and rejecting views of those from other provinces when receiving members of the "Patriotic Alliance"	The outside world's criticism of my "Taiwan independence, independent Taiwan" inclination is extremely distorted and has absolutely no basis. Otherwise how could Mr. Ching-kuo have accepted me and put me in an important position?
			We should not stir up the provincial origins issue any more. In fact, I am most concerned the second generation of people from other provinces, so of course we would not exclude people from other provinces.
			Those present are all from other provinces and I am very willing to link up with you without differentiation.

Statements of Domestic Politicians on "The Provincial Origin Issue" in the Last Six Months (Continued)

Date	Name	Place	Statement
14 Jul 90	Sung Ch'u-yu [1345 2806 3842]	In an interview following a meeting to award scholarships to sons and daughters of workers in KMT Central Committee-operated enterprises	<p>Taiwan's greatest achievement in the past four years is that through education and marriage we have put an end to provincial consciousness. Furthermore, people are selected on the basis of ability, no matter what the system, whether electoral or the civil service examination, so clearly there is basically no so-called provincial origins issue.</p> <p>If any person engaged in political activity intentionally raises the issue of provincial origin, it causes confusion and uneasiness in the nation and society and this is extremely irresponsible behavior.</p>
16 Jul 90	Chao Shao-k'ang	New KMT United Front press conference	<p>The provincial origins issue was weakened long ago through marriage and interpersonal relations, and the origin of the provincial origins issue was the March political dispute. Initially, who was it that said to Lin Hsiang-kang, "Taiwanese should not struggle against Taiwanese"? "Taiwanese should join together to deal with people from other provinces"? It is even said that Lin Hsiang-kang was a "Taiwan traitor" for coming forward to run for president.</p> <p>Facts prove that accusing authorities on the grounds of provincial origin is fairly effective. This is the primary reason the main faction of the DPP and the main faction of the KMT joined forces, but their only aim was first to unite Taiwanese to overcome the people from other provinces and then for the Taiwanese to compete against each other!</p> <p>If internal disorder breaks out on Taiwan, the Chinese Communists will take advantage of it and today's majority (Taiwanese) will become tomorrow's minority!</p> <p>Politicians should no longer use provincial origins as a tool for political polarization, otherwise it only merits calling "political confusion" a national crime and should be attacked at first warning.</p>
17 Jul 90	Chen Kuei-miao [7115 4097 8693]	At a New KMT United Front question and answer session held at the Sun Yat-sen Memorial Hall.	When I first participated in the United Front a XX legislator advised me not to: "Why do you want to join the United Front of people from other provinces, why not join the XX of Taiwanese?" This idea of distinguishing between provinces is a bad idea which should be punished. Such politicians are chameleons, and stir up abnormal awareness in the issue of provincial origin.
18 Jul 90	Lin Yang-kang	Responding to reporters' questions at a breakfast with the "group of seven nonparty legislators."	<p>The issue of provincial origins basically does not exist at the grassroots level. In my hometown of Nan-t'ou County there are many intermarriages of people from Taiwan and people from other provinces. If some people attempt to stir up this problem, they really shouldn't! But some people are even recalling past events and talking about the February 28th [Uprising] and this is just too immoral!</p> <p>The issue of provincial origins basically does not exist among the people. But oddly enough, some high-level government figures recently raised this problem.</p> <p>(In employment) provincial origin basically should not be taken into account. As long as they are qualified they should be placed where they belong.</p> <p>I deny that provincial origin has an impact on one's political future, and I deny that during the March presidential elections some people used the issue of provincial origin to encourage me to withdraw.</p>
20 Jul 90	Announcement	New Tide press conference	Recently, some figures in the KMT raised the issue of provincial origin, "We can understand their sense of danger, but we cannot excuse their use of provincial origin to incite."
	Ch'iu I-jen [6726 5030 0088]	New Tide press conference	The so-called democracy of the New KMT United Front is only voting for party chairman. Other democratic issues are not raised, in particular the issue of provincial origins was blocked which is even more inexcusable! But just because Li Teng-hui is a Taiwanese, some people forgive his many undemocratic methods and this can only intensify the provincial origins contradiction.
	Lin Cho-shui [2651 3424 3055]	New Tide press conference	Legislative Yuan President Liang Su-jung has adopted an offensive posture with regard to the provincial origins issue, one who is really strong cannot be like this and it indicates that, psychologically, he feels that he is weak.

Statements of Domestic Politicians on "The Provincial Origin Issue" in the Last Six Months (Continued)

Date	Name	Place	Statement
20 Jul 90	Chao Shao-k'ang	New KMT United Front press conference	<p>The New Tide says "the thief is the first to claim he was robbed."</p> <p>I hope that the New Tide can add people from other provinces and will nominate a fair number of people from other provinces to run for office. But the standing committee of the DPP should also have a few more people from other provinces. This is the target proposed to test the New Tide.</p>

DPP Faction Opposes Taiwan Chauvinism

90P30093A Hong Kong MING PAO in Chinese
21 Jul 90 p 9

[Text] (Special MING PAO dispatch) Taipei news: The New Tide Faction of Taiwan's Democratic Progressive Party [DPP], which is suspected of having consistently advocated Taiwan independence [on a racist basis], yesterday held a press conference to state that the faction's advocacy of Taiwan independence is not based on racial discrimination. Although the faction does not approve of greater China chauvinism, it also opposes chauvinism on the part of the Taiwan people.

Addressing the provincial origin question, the DPP New Tide Faction yesterday held a press conference to "work out a solution to the provincial origin question and to establish a national consensus," with the hope of establishing a supraprovincial, harmoniously progressing country by clarifying concepts and establishing systems and policies.

The press conference was presided over by Taiwan legislator Hung Chi-chang. Attending personages

included Taipei City councilor Li Yi-yang and DPP New Wave Faction members Lin Cho-shui, Wu Nai-jen, and Chiu Yi-jen, among others.

The New Tide Faction believes that it does not have a provincial bias; however, in its declaration, it points out that the provincial origin contradiction is real in Taiwan and that it has the potential to cause great disruption.

Wu Nai-jen said that for a long time already the common desire for democratic order has lessened the importance of the provincial origin question. However, recently the provincial bias question has again been raised, and it could eventually destroy the social and political harmony that has been gradually increasing.

The declaration brought up six points. We should: 1) take the attitude of honestly facing the provincial origin question; 2) heal the historical wound of "February 28th"; 3) support employment opportunities for middle- and lower-level mainlanders; 4) promote political democratization without delay; 5) clarify the relationship between provincial origin and race and between unification and independence; and 6) totally revise the national cultural policy.

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